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Ideas on Liberty

APRIL 1982

## THE RELICS OF INTERVENTION

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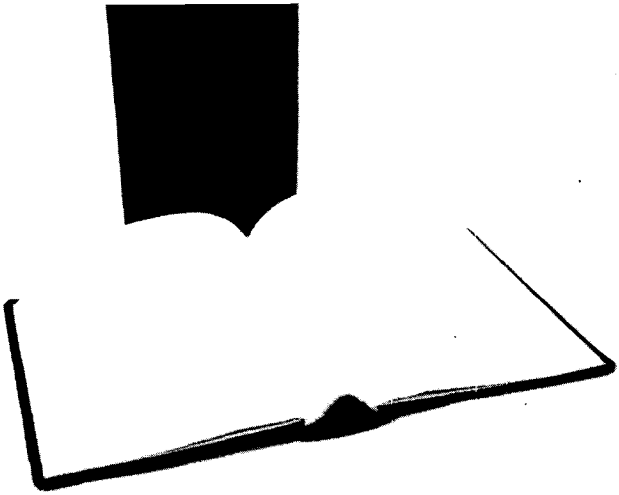

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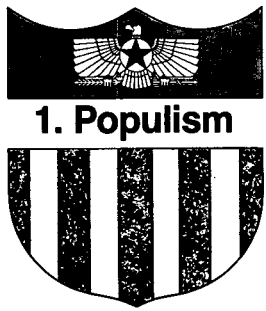
Clarence B. Carson

# THE RELICS OF INTERVENTION:




THERE is a story of World War II vintage which went something like this. It is about a particular bench on an army post, in Hawaii, I think, and was supposed to have taken place in the early 1940s. It seems that each day the guard whose rounds took him past the bench was issued a special order not to allow anyone to sit on the bench. Someone—probably an Officer of the Day who had nothing better to do once he had posted the guard—took it into his head to try to find out why no one was permitted to sit on the bench. It turned out that during World War I, some twenty years earlier, the bench had been painted. On the day it was painted a special order was issued to prevent anyone from sitting on wet paint. The paint had long since dried, but the order remained.

The order was a relic. A relic is something that remains from the past. Ordinarily, it refers to something of great age or antiquity, but age is not all that essential. By extension, at least, a used tea bag may be a relic from a cup of tea. The remains of a deceased person may be relics. That gets nearer to the heart of the matter. A relic is something out of which the life is gone, if it ever had life. It is the leavings of something. It may be retained as a keepsake or memorial. Or, it may survive only because no one has gone to the trouble to dispose of it, such as, decrepit buildings on old farm sites. Or again, relics may be the remains of something brought into being out of enthusiasm, which never were effective, but which survive because they have been kept going by those who saw it to their advantage to do so.

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Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books and a frequent contributor to *The Freeman* and other scholarly journals.



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It is in this latter sense that I use the phrase, "relics of intervention." By "relics" I mean the vast assortment of government programs, policies, regulations, controls, prohibitions, enterprises, bureaus, offices, commissions, and departments which have resulted from government intervention in the economy and lives of Americans over the past seventy or eighty years. I mean the huge regulatory bureaucracy which has been brought into being to enforce the intervention. I mean, to name a few, the Interstate Commerce Commission, the National Labor Relations Board, the Federal Communications Commission, the Department of Health and Human Services, the Council of Economic Advisers, the Federal Trade Commission, the Federal Power Commission, the Securities and Exchange Commission, and all those other bodies and persons who intervene in various ways.

They are relics, in the first place, of nineteenth-century ideas born in the heated imaginations of utopians, revolutionaries, and reformers. It will be the burden of what follows to show that while some of the ills that reformers decried may have been real enough, the programs involved an enthusiasm for the benefits of government intervention in society and in economy warranted neither by history nor reason. They are relics, in the second place, because the shaky premises and fallacies underlying them have been exposed in land after land time after time in the twentieth century. Most of the interventionist ideas antedated the Bolshevik Revolution and the numerous socialist experiments in the twentieth century but came from the same fount of ideas. They are relics, in the third place, because they obstruct enterprise, strangle initiative, make it exceedingly difficult for governments to have balanced budgets, and have fastened upon us an inflation which is destroying the value of the money.

## The History of Intervention

The overall purpose of this study, however, is to place the whole body of the interventions, or so many of them as can be considered, in historical perspective. Much as the inquisitive soldier sought for the origins of the special order about the bench, so it is the purpose here to examine the genesis and development of the interventions. There is some evidence of a growing awareness that much of the intervention is today counterproductive. To unravel the skein of intervention may help in making an evaluation of this. It is true that many of the interventions are still very much a part of the activities of government. It might be supposed, then, that they are not relics. It does not follow. The last soldier who guarded the bench preventing anyone from sitting on it

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may have done so as vigorously as the first.

Populism is a good place to start the investigation. Not because populism was the first movement toward this type of government intervention. Nor because the ideas advanced by the Populists originated with them, for they did not. Not even because the grievances alleged were newly minted by them. As a matter of fact, the ideas, the alleged grievances, and even political movements to advance them preceded the Populists.

Rather, the Populist movement makes a good starting place because for the first time the interventions they proposed began to make some political impact. Not only did the Populists actually get candidates elected to office in several states, but they also played an important role in the shift of the Democratic Party toward intervention. Eventually, too, some of the particular programs they pushed were passed into law. In short, some of the relics of intervention come to us by way of the Populists, however indirectly. It is important, too, to examine some of these ideas in their crude formulations, for by so doing we can judge the quality of the materials from which interventionist measures were made.

The Populist, or People's Party, had only a relatively short period of political activity. It was brought into being by action in several states in 1890. It reached a peak of national political activity in 1892, when its presidential candidate, General James B. Weaver, received over a million popular votes and 22 electoral votes. Its denouement came four years later when the Populists nominated the Democratic candidate, William Jennings Bryan, as their presidential candidate also. Its vigorous political activity, then, was concentrated in a period of six years.

The People's Party was an instrument mainly of the Farmer's Alliances, which were organized by states and divided into Northern and Southern federations. However, they drew reformers and radicals from many other organizations, or none, into the People's Party. For example, at the Topeka Convention in 1890, in which the People's Party was organized, for Kansas anyway, the delegates consisted of "forty-one Alliancemen, twenty-eight Knights of Labor, seven Patrons of Husbandry, ten members of the Farmers' Mutual Benefit Association, and four single-taxers."[1] To put it another way, the Populists drew into their ranks farmers with a bent for collective action, statists who sought redemption through government action, industrial unionists, those with some particular panacea for the ills of the people, hopeful politicians, and discontented ones eager to blame their ills on those in power.

While the Populists had a consid-

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erable variety of programs and proposals, what linked most of them with one another was their belief in a monetary solution to their main problems. The Populists were monetarists. They held that the quantity of money in circulation was vital and crucial to general prosperity. It may well be that John Maynard Keynes devised the most complex and sophisticated justification for government induced inflation, but inflationist panaceas were around long before he was born. In the long perspective of history, Keynes's theory was just another set of wrinkles on an idea already hoary with age.

### An Early Monetarist

The earliest monetarist proposal made in America, known to the present writer, was the one by Benjamin Franklin in 1729. Pennsylvania had some paper currency at the time, but Franklin argued that if the amount of it were greatly increased it would facilitate trade and contribute greatly to the prosperity of the colony as well as the mother country.[2] Thus, his argument contained the gist of the notion that the quantity of money in circulation is a prime ingredient in prosperity.

However, an historian of populism traces the Populist idea from an obscure writer of the 1840s, Edward Kellogg. He had been in business in the 1830s but was ruined following the Panic of 1837. Since Jackson's Specie Circular had precipitated that crisis, Kellogg concluded that fiat money would be the solution to the problem. He set forth his thesis in 1849 in a book with this interesting title: *Labor and Other Capital: The Rights of Each Secured and the Wrongs of Both Eradicated. Or, an exposition of the cause why few are wealthy and many poor, and the delineation of a system, which, without infringing the rights of property, will give to labor its just reward.*[3] In short, if government would just cause enough paper money to be issued everyone could be paid the amount each ought to have.

Kellogg's ideas continued to be spread after the Civil War, and were eventually taken up to serve as the basis of the Greenback-Labor Party. In the meantime, of course, the paper money enthusiasts had been stimulated by the Greenbacks issued by the government during the Civil War. However, when these began to be redeemed in gold and national bank notes retired, when prices began to fall, the monetarists began to gain some popular following.

### The Silverites

Two other things conspired to whip up their energies. One was the "demonetization of silver" in 1873—the stopping of the minting of the silver dollar—which went unnoticed and unchallenged at the time, but was later taken up as a political cause

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and became known as "the Crime of '73." The other development was the discovery of large quantities of silver in the West. Unlimited coinage of silver became an inflationist cause as well as that of getting the government to issue paper money. In these matters, the People's Party was successor to the Greenback-Labor Party of an earlier decade.

At heart, however, the Populists were not silverites. They were inflationists and, for the moment, unlimited coinage of silver would be inflationary, and they were for it. But their true love was paper money, made legal tender by government, and issued in sufficient quantities to raise prices and keep them high. In our time, caught as we are in the throes of inflation, their idyllic vision of the possibilities of inflation is unlikely to captivate most of us. But it needs to be revisited, because it underlay the inflationary thrust which has brought us to our present impasse.

The Populists tended to attribute all economic ills to the shortage of money. Here, for example, are the ills which Sarah Emery attributed to the demonetization of silver: "Language fails in a description of the blighting misery that desolated the country.... From the demonetization of silver, in 1873, to its remonetization in 1878, may well be called the dark days of the Republic. Bankruptcies and financial disaster brought in train their legitimate offspring, and the statistics of those and the ensuing years are voluminous with the most startling and loathsome crimes; murder, insanity, suicide, divorce, drunkenness, and all forms of immorality and crime have increased from that day to this in the most appalling ratio."[4] Apparently, contraction of the money supply could be blamed for everything except, possibly, earache, chilblain, and halitosis.

Not all Populists were so imaginative as Mrs. Emery in the ills they attributed to constriction of the money supply, but they all agreed it had drastic consequences. Ignatius Donnelly had a character in one of his novels describe the impact this way:

> Take a child a few years old; let a blacksmith weld around the waist an iron band. At first it causes him little inconvenience. He plays. As he grows older it becomes tighter; it causes him pain; he scarcely knows what ails him. He still grows. All his internal organs are cramped and displaced. He grows still larger; he has the head, shoulders and limbs of a man and the waist of a child. He is a monstrosity. He dies. This is a picture of the world of today, bound in the silly superstition of some prehistoric nation. But this is not all. Every decrease in the quantity, actual or relative, of gold and silver increases the purchasing power of the dollars made out of them; and the dollar becomes the equivalent for a larger amount of the labor of man and

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his productions. This makes the rich man richer and the poor man poorer. The iron band is displacing the organs of life. As the dollar rises in value, man sinks. Hence the decrease in wages; the increase in the power of wealth; the luxury of the few; the misery of the many.[5]

Such claims as these informed the famous last sentence of William Jennings Bryan's peroration to the Keynote Address at the Democratic Convention in 1896: "You shall not press down upon the brow of labor this crown of thorns, you shall not crucify mankind upon a cross of gold."[6]

### An Ever-Normal Dollar

What Donnelly, and other Populists, failed to point out, of course, is that *prices* are the means by which the supply of money is adjusted to the supply of goods. There is no "iron band" or "cross of gold" if prices are free to fluctuate. It is true that long term debts may be more difficult to retire if the money supply is contracted, and that, *if* creditors could get them paid off at face value, not very probable, they might be considerably enriched. It is equally true that if the money supply is increased, creditors may lose and debtors gain. These are better arguments against long term indebtedness, however, than for anything else, so far as I can see.

If their more complex analysis is to be taken seriously, what the Populists apparently wanted was a dollar that did not fluctuate in value. They were affronted by the notion that a dollar might buy a bushel of wheat one year, while fifty cents might buy a like bushel the next year. They wanted an "ever normal dollar," so to speak. They did not want prices, at least of labor and farm products, to fluctuate in the market. We might suppose that they would have advocated taking the most direct route to their goal, by way of price controls, but the thought may not have occurred to them.

Instead, they proposed a monetary solution. They particularized their proposal in what is known as "The Subtreasury Plan."[7] This Plan was devised especially to deal with farm prices. The argument was made that farm prices immediately following harvests are likely to be at the lowest point during the year. What farmers needed, they reasoned, was some means of holding on to their crops until prices would rise. Governments must intervene, they argued, to make this possible. Local governments should donate the land and build the structures for storing the crops. The United States government should then intervene by lending up to 80% of the current value of the crops to the farmers. The money lent would be created by issuing paper money which the government would declare to be legal tender. Somehow, this paper money

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would be secured by warehouse receipts which would have to be redeemed within a twelve month period. (How all this would work out is by no means clearly set forth in the Plan.) Populists claimed that this would make plenty of money available when the crops were harvested, and that the amount of money would be reduced in the course of the year as it was used to buy the crops.

Whether the Plan would have worked as billed need not concern us. Probably not, but the important point about it was that it tied an inflationary scheme to the agricultural situation, helping to sell many farmers on inflation. But however vigorously some of the Populists might push the Subtreasury Plan, it was government induced inflation they were selling in the final analysis. And inflation would cure the ills of mankind.

If there were only an international paper money, Ignatius Donnelly said, "The world, released from its iron band, would leap forward to marvelous prosperity; there would be no financial panics, for there would be no contraction; there would be no more torpid 'middle ages,' dead for lack of currency, for the money of a nation would expand, *pari passu*, side by side with the growth of its population. There would be no limit to the development of mankind, save the capacities of the planet; and even these, through the skill of man could be increased a thousand-fold beyond what our ancestors dreamed of. The very seas and lakes, judiciously farmed, would support more people than the earth now maintains. A million fish ova now go to waste where one grows to maturity."[8] A bountiful paper money would apparently change all that.

### Call for Intervention

But the Populists had more than one string to their bow. Most of them were monetarists, at least the leaders were, but there was something broader than that impelling them onward. Many historians have treated the Populist movement as if it were simply the offspring of agricultural (and perhaps, industrial worker) discontent. Discontent there undoubtedly was, but it only provided the fertile ground for the sowing of an idea, not the idea itself.

The Populist leaders were under the sway of an idea. The idea, when its trappings are removed, is this: That if government will only intervene in the economy on the side of "the people," i.e., farmers and industrial workers, it can cure the ills besetting mankind. As Donnelly put it, "We have but to expand the powers of government to solve the enigma of the world. . . . There was a time when every man provided, at great cost, for the carriage of his own letters. Now the government . . . takes the business off his hands.

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There was a time when each house had to provide itself with water. Now the municipality furnishes water to all. . . . These hints must be followed out. The city of the future must furnish doctors for all; lawyers for all; entertainment for all; business guidance for all. It will see to it that no man is plundered, and no man starved who is willing to work."[9]

Jacob S. Coxey, leader of "Coxey's Army" in 1894, declared, in a speech written to be delivered to Congress, but never delivered: "We are here to petition for legislation which will furnish employment for every man able and willing to work; for legislation which will bring universal prosperity. . . . We have come to the only source which is competent to aid the people in their day of dire distress."[10] Lorenzo Dow Lewelling said, "I claim it is the business of Government to make it possible for me to live and sustain the life of my family."[11]

Some contemporary critics saw the socialist animus behind the movement. A contemporary historian pointed out that "Populists may claim, as many of them do, that they are not socialists, and that they are opposed to socialism; the fact remains that their attitude is socialistic. Their demands for government interference for the correction of evils are socialistic. They believe that government can do better for individuals, in many cases, than the individuals can do for themselves. Furthermore, their proposals are the very ones advocated by socialists."[12]

## Signs of Socialism

After the Democrats had adopted a Populist leaning platform in 1896, Archbishop John Ireland of Minnesota deplored the "spirit of socialism that permeates the whole movement which has issued from the convention at Chicago."[13] The Catholic bishop of Omaha denied that he called Populists anarchists. "But I did say," he declared, "and I now say, that Populists, Anarchists, and Communists must not be permitted to destroy the financial credit of our country."[14]

Most Populists did not, of course, avow their socialism. Henry Demarest Lloyd, who was both a Populist and an avowed socialist, expressed his irritation about the refusal of others to admit it in a letter to Edward Bellamy in 1896. "The movement we are in," he said, "*is* International Socialism. . . . Why not recognize it and say so."[15] Bellamy's utopian novel, *Looking Backward*, published in 1888, had such an impact that one observer at the Populist Convention in 1892 declared that readers of his book "were the brains of the convention."[16] But the clubs formed to spread the word from Bellamy were called Nationalist Clubs.

There can be little doubt that Populists were collectivists. It comes

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through rather clearly in the language that they employed, even if their intent to use government for their ends be set aside. In a speech in 1894, Lorenzo Dow Lewelling said:

> We have come here today pleading for truth against error. Men are nothing in a great contest of the people like this. It matters not who is the leader so that all the people stand together united for the great principles of humanity.[17]

James B. Weaver, Populist presidential candidate in 1892, made his collectivist position clear enough, when he said: "Capital possesses one thing which labor does not—ready cash. They will not hesitate to make the best possible use of it. But labor possesses that which capital does not—numbers. They should be made effective."[18]

### A Class Struggle

There can be *no* doubt that the Populist programs were advanced in the most blatant class terms. The struggle for which they girded themselves was of the masses with the classes, or as Populists were most apt to characterize it, "the people" against "the interests." A hundred examples could be given, but this excerpt from a speech by Mary E. Lease in 1890 will have to suffice to give the flavor of so many others:

> Wall Street owns the country. It is no longer a government of the people, by the people and for the people, but a government of Wall Street, by Wall Street and for Wall Street. The great common people of this country are slaves, and monopoly is the master. The West and South are bound and prostrate before the manufacturing East. . . . Kansas suffers from two great robbers, the Santa Fe Railroad and the loan companies. The common people are robbed to enrich their masters. . . . There are thirty men in the United States whose aggregate wealth is over one and one-half billion dollars. There are half a million looking for work. . . . We want money, land and transportation. We want the abolition of the National Banks, and we want the power to make loans direct from the government. We want the accursed foreclosure system wiped out. . . . The people are at bay, let the bloodhounds of money who have dogged us thus far beware.[19]

But the best evidence of Populist's beliefs is in the various platforms that they drew. That they were for government intervention, that they tended to favor government ownership, and that they were monetarists, comes out in every one of them. One peculiarity of their platforms is worth noting. They were given to prefacing their planks with the phrase, "We demand." This phrase occurs in the Farmer's Alliance platforms which antedate the formation of the People's Party and may well have been a "relic" carried over when they organized politically. At any rate, the People's Party platform of 1892 is the penultimate one, and these excerpts from it recapitulate the substance of their demands.

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The 1892 platform was largely the work of Ignatius Donnelly of Minnesota. It read, in part:

> We demand a national currency, safe, sound, and flexible, issued by the general government only, a full legal tender for all debts, public and private, and that without the use of banking corporations, a just, equitable, and efficient means of distribution direct to the people.
>
> 1. We demand free and unlimited coinage of silver and gold at the present legal ratio of 16 to 1.
>
> 2. We demand that the amount of the circulating medium be speedily increased to not less than $50 per capita.
>
> 3. We demand a graduated income tax.
>
> 4. We believe that the money of the country should be kept as much as possible in the hands of the people, and hence we demand that all State and national revenues shall be limited to the necessary expenses of the government, economically and honestly administered.
>
> 5. We demand that postal savings banks be established by the government for the safe deposit of the earnings of the people and to facilitate exchange.
>
> Transportation being a means of exchange and a public necessity, the government should own and operate the railroads in the interest of the people. The telegraph, telephone, like the post-office system, being a necessity for the transmission of news, should be owned and operated by the government in the interest of the people.
>
> The land, including all the natural resources of wealth, is the heritage of the people, and should not be monopolized for speculative purposes. . . . All land now held by railroads and other corporations in excess of their actual needs . . . should be reclaimed by the government and held for actual settlers only.[20]

The Populists also expressed "sentiments" in favor of such measures to make the government more popular as the secret ballot, the direct election of Senators, restriction of Presidents to a single term, and the use of the initiative and referendum to obtain legislation. For organized labor, they favored shorter hours, immigration restriction, more stringent enforcement of restrictions on contract labor, abolition of the Pinkerton detective system, and, for flavor, "we condemn the recent invasion of the Territory of Wyoming by the hired assassins of plutocracy, assisted by Federal officers."

## Related Activities

It would be an exaggeration, of course, to attribute all the programs since enacted which bear some resemblance to theirs to the Populist impetus. After all, most of the ideas that the Populists advanced did not originate with them. Moreover, the Populists themselves were never able to enact into law a single program of theirs on a national scale. Even so, they did give impetus to a surprising number of ideas which have since been articulated in one way or another into the framework of government activity and intervention. To see this, it helps to focus on the goals of their programs rather than

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sticking too closely to the specifics of their recommendations.

Take their monetary program, for example. Neither the Populists, nor the Democratic silverites ever managed to get free coinage of silver. But it would be a mistake to suppose that was anywhere near the ultimate goal. In the first place, they wanted to get off the gold standard. In the early and mid-1890s, free coinage of silver would have accomplished that in short order. This was well illustrated by the ill-fated Sherman Silver Purchase Act of 1890.

While this act did not provide for "free coinage," it did authorize large scale purchase of silver by the Treasury, and the certificates issued for it were redeemable in either gold or silver. Since gold was undervalued at the prevailing ratio, a run on gold was precipitated, and a money panic ensued. The Cleveland Administration was only able to meet its gold obligations by extensive gold purchases and, ultimately, by getting the Sherman Act repealed. Free coinage at a ratio of 16:1 would have driven gold out of circulation quickly and decisively.

But silverism was only a tactic for the Populists. What they sought was to be rid of gold so as to have a flexible paper money system under the control of the government. Almost everything they sought has long since been achieved. The movement toward a flexible currency bore fruit first in the Aldrich-Vreeland Act in 1908, but that was shortly superseded by the much more thorough Federal Reserve System. Gold has long since ceased to be legal tender and been replaced by paper money. On one point, the Populist goal was apparently thwarted, that of the abolition of the national banks. But regulation and control has effectively brought them under government power. The Populists did not envision the possibilities of government regulation, and, in that sense, they were not precursors of a major species of government intervention.

### Programs Enacted

Many other ideas advanced by the Populists have also been enacted. The graduated income tax has been a fixture since the early twentieth century. A Postal Savings Bank was inaugurated. Direct election of Senators became the law of the land. An 8-hour work day and a favorable climate for labor unions became government policy. The government has not generally taken over by ownership the means of transportation and communication, but it has achieved much the same end by regulation. Land has not been directly appropriated by government on a class basis from corporations, but the Federal government is today reckoned to be the largest landowner in the world outside Communist countries, and the power of eminent domain is now

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exercised to take private property from some who are not using it in an approved fashion to turn it over to others. Even Ignatius Donnelly's vision of government paying legal and medical bills is now being realized in such programs as the Public Defender system and Medicaid.

Equally, or more, important there is a residue of ideas from populism which is still very much alive. There is the notion that government should intervene on behalf of farmers, industrial workers, and the poor. There is the belief in monetarism and the associated quantity of money theory. And, above all, the idea that wealth and corporate power are a menace to the Republic is so much alive today that it is more apt to be heard on Madison Avenue than from the stump in Kansas.

In short, relics of populism abound today. Occasionally, one of them is decently interred. Crop loan programs, for example, have been largely abandoned. That financial dinosaur, the Postal Savings Bank, has finally been phased out. But for the most part, the relics of populism are still very much with us. The depredations of inflation are now worse than ever. The graduated income tax is an almost immovable fixture. Corporate earnings are subject to virtually confiscatory taxation. Labor unions have grown increasingly strong among government employees themselves.

But there is much more to the story of the relics of intervention than the early advancement of programs and ideas by Populists. Those had to become law, and many other interventions were advanced. These, too, need to be examined.

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Next: *Progressivism.*

## —FOOTNOTES—

[1]John D. Hicks, *The Populist Revolt* (Lincoln: University of Nebraska Press, 1961), p. 156.

[2]See Ralph Ketcham, ed., *The Political Thought of Benjamin Franklin* (Indianapolis: Bobbs-Merrill, 1965), pp. 14–18.

[3]Lawrence Goodwyn, *The Populist Movement* (New York: Oxford University Press, 1978), pp. 13–14.

[4]George B. Tindall, *A Populist Reader: Selections from the Works of American Populist Leaders* (New York: Harper & Row, 1966), pp. 55–56.

[5]*Ibid.*, p. 110.

[6]*Ibid.*, p. 211.

[7]See Hicks, *op. cit.*, ch. VII and Tindall, *op. cit.*, pp. 80–87.

[8]Tindall, *op. cit.*, p. 111.

[9]*Ibid.*, pp. 114–15.

[10]*Ibid.*, p. 161.

[11]*Ibid.*, p. 149.

[12]*Ibid.*, p. 181.

[13]Quoted in Robert F. Durden, *The Climax of Populism* (Lexington: University of Kentucky Press, 1966), p. 149.

[14]*Ibid.*, pp. 149–50.

[15]Quoted in Daniel Aaron, *Men of Good Hope* (New York: Oxford University Press, 1951), p. 132.

[16]*Ibid.*, p. 130.

[17]Tindall, *op. cit.*, p. 159.

[18]*Ibid.*, p. 72.

[19]Quoted in Hicks, *op. cit.*, p. 160.

[20]Tindall, *op. cit.*, pp. 93–94.

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Earl P. Holt III

# FREEDOM and "SOCIAL-DEMOCRACY"

AMONG certain circles in Western Europe and the United States economic freedom is commonly perceived as less morally elevated than other freedoms because it manifests in the "vulgar" pursuits of capitalism. Since economic freedom is presumed distinct from freedom broadly defined, the conclusion generally follows that it may be safely subordinated to "loftier" social objectives without imperiling traditional democratic liberties.

This sentiment rather faithfully captures the prevailing attitude among those who bear the self-designation "social-democrat." By juxtaposing its two terms, advocates of social-democracy suggest a potential compatibility between the two systems, and persist in resurrecting the myth of a "humane" socialism in which civil and political liberties might flourish.

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In truth, however, social-democracy is predicated on false assumptions which ignore a profoundly significant principle governing the relationship between man and state: Because activities deemed "economic" bear on practically every aspect of civil and political liberties, a nation's commitment to economic freedom is paramount in determining both the quality and depth of its other freedoms.

Indeed, it has been as a result of this indivisibility of economic from other freedoms that British and American flirtations with social-democracy have precipitated significant erosions of civil and political liberties within these two countries.

Whatever social-democracy's alleged rationale—whether redistribution or "social accountability"—its considerable powers are rarely used for such idealistic ends. Instead, its common experience has been to brazenly consolidate the control of those in office by granting special privi-



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leges to the relatively powerful elements of society, in exchange for the latter's electoral support.

### Privileges for Labor in U.S. and Britain

Organized labor represents a large, powerful and well-financed constituency, and for that reason has been a traditional beneficiary of this process in the U.S. and Britain. This relationship was described by Nobel laureate Friedrich Hayek in his masterful treatise on collectivism, *The Road to Serfdom:*

> So long as the socialist movement in a country is closely bound up with the interests of a particular group, usually the more highly skilled industrial workers, the problem of creating a common view on the desirable status of the different members of society is comparatively simple. The movement is immediately concerned with the status of one particular group, and its aim is to raise that status relative to other groups.[1]

Yet, as the U.S. has learned from its experience with "affirmative-action" and racial quotas, elevating the fortunes of certain privileged groups through government is accomplished only by trampling the rights, immunities and well-being of others not so favored.

Reflective of organized labor's special position in the U.S. is the so-called "Davis-Bacon Act," whose primary effect is to mandate that union wages be paid employees engaged in public works projects even partially benefiting from federal funding.[2] This unquestionably suppresses competition by smaller, non-union construction firms which are less able to absorb such exorbitant labor costs; and in turn, shifts this work to *unionized* construction workers whose bargaining power is "strengthened substantially."[3]

Similarly, U.S. minimum wage legislation is now widely recognized as a major contributor to the harrowing unemployment rate of unskilled (thus politically powerless) minority teenagers.[4] This result is attributable to its establishment of a wage "floor" greater than the value of the unskilled labor it ostensibly protects, causing employers to lay off or never hire many unskilled workers.

Despite its consequences, efforts at its repeal are invariably scuttled by the AFL-CIO and its minions in Congress, even though the AFL-CIO's members command far more than the federal minimum wage dictates and would *appear* to be unaffected by it. In light of truly overwhelming evidence of its sinister effect on minority employment, many economists such as UCLA's Jack Hirshleifer have become quite cynical when hypothesizing the reason for our retaining the minimum wage:

> The most significant political pressure for higher minimum wages seems to come from organized labor, in particular, the

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AFL-CIO. . . . A higher minimum wage raises the cost of unskilled relative to skilled workers. The consequence is to induce firms to employ fewer of the unskilled workers, raising demand for the skilled workers represented by the AFL-CIO.[5]

As a corollary to the above, social-democracy's granting of special status to privileged groups greatly enhances the power of those interest groups, and—as in the case of Britain's trade unions—often enables the latter to frustrate the *express will of the electorate.*

### British Trade Unions

Passage of the Trade Disputes Act of 1906 accorded British trade unions "a position of legal privilege that is without parallel in any other country,"[6] by granting them immunity from tortuous actions in all British courts. The Act thus cancelled what few checks there are to union power by prohibiting their prosecution for restraint of trade, conspiracy, and many of the various practices constituting "intimidation" of non-striking workers.[7]

Anyone familiar with modern Britain cannot fail to observe that as a result of their privileged status, trade unions have grown so powerful they are now able to paralyze the gasping British economy, as they so successfully confirmed with massive and widespread strikes in 1978.

Paradoxically, British public opinion clearly *favors* legal restrictions on trade unions. According to internationally-respected journalist Robert Moss of the *London Daily Telegraph,* a series of public opinion polls conducted since 1958 have consistently indicated majority support for even such harsh measures as banning *all* strikes.[8]

During its brief lifetime, moreover, opinion polls also demonstrated majority support for the 1971 Industrial Relations Act; the only post-war legislative effort to restrain trade union power, and one consisting primarily of numerous restrictions on the ability of unions to strike.[9] The Act was nevertheless repealed in 1974 after intense pressuring of the newly-elected Labour government by British trade unions.

Majority opposition to union power was again demonstrated in the mandate of the 1978 national elections, which brought Mrs. Thatcher and the Tories to power amidst public outrage over Labour's inability to stem a crippling nationwide strike. But even here majority will has been thwarted by the entrenched power of unions, whose strike-threat weapon and immunity from civil sanctions seem quite literally to exempt them from political reform.

Recognizing that privileged status, once granted, can neither be tolerated nor so easily revoked in a democracy, American economist Henry C. Simons once remarked of the

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frightening position of British labor: ". . . government, long hostile to other monopolies, suddenly sponsored and promoted widespread labour monopolies, which democracy cannot endure, cannot control without destroying, and perhaps cannot destroy without destroying itself."[10]

### Discriminatory Harassment

The power of social-democracies to outlaw "economic" behavior must necessarily include the additional authority to attach sanctions for lack of compliance; which, *themselves*, have profound and direct consequences for individual liberties.

In his classic *Capitalism and Freedom,* Nobel laureate Milton Friedman mentions the plight of a California retailer, imprisoned for selling "Alka-Seltzer" below its price established under so-called "fair trade laws."[11]

Consider also the more recent case of the Boston service-station owner who, in February of 1980, was sentenced to one month in jail and fined $9,450 for selling his legally-purchased gasoline to willing customers, but at prices above the federal ceiling price then in effect. As *The Wall Street Journal* pointedly commented, he was convicted of what Soviet authorities call an "economic crime."[12]

The unfortunate service-station owner's real offense was his misfortune to be part of an industry that federal officials periodically find a convenient scapegoat for the government's own ineptitude in managing energy. This suggests another consideration.

If reasonable and traditionally legitimate economic activities have no immunity from arbitrary whims of the state, no safeguard exists to prevent the discriminatory harassment or ruination of unpopular industries by shamelessly demagogic politicians promoting purely political ends. Certainly the misnamed "windfall-profits" tax, the steel industry's experience with price "jaw-boning," and the tribulations of the nuclear power industry suggest this very real threat.

Similarly, when dissolving economic freedom and destroying property rights becomes a legitimate function of government, the state's power is dramatically enhanced, greatly expanding its opportunities to indulge in coercion and intimidation against private individuals who are critical of or oppose the political agenda of those in power.

To wit, it was reported in the October 31, 1977 edition of *U.S. News & World Report* that Energy Secretary James Schlesinger threatened oil industry officials with more regulation or divestiture if they didn't publicly support the Carter Administration's controversial "windfall-profits" tax.

Likewise, Internal Revenue Ser-

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vice Commissioner Jerome Kurtz threatened private schools with revocation of their tax-exempt status if they did not conform to IRS schemes involving racial quotas. [13] The "chilling" of freedom-of-speech and freedom-of-association reflected in the above two examples would seem to be self-evident.

### The Expanding Public Sector

Opportunities afforded by a healthy private economy also provide refuge and immunity from governmental caprice for individuals whose political party, life-style, viewpoint or values happen to offend (or differ from) those in power.

On the other hand, however, a definitive characteristic of social-democracy is its "creeping" conversion of private sector into public sector. Conveniently overlooked by those who anxiously ascribe to it benign consequences, is that at some point in this process, individual freedom-of-choice becomes effectively preempted by government actions impinging on the private sector.

This creeping conversion of private sector into public eventually diminishes the range of private choice available, and by thus eroding private sector alternatives, ultimately facilitates the imposition of state control over hapless individuals left without recourse: In *The Road to Serfdom,* Professor Hayek elucidated this principle as well:

> We can unfortunately not indefinitely extend the sphere of common action and still leave the individual free in his own sphere. Once the communal sector in which the state controls all the means, exceeds a certain proportion of the whole. . . . the effects of its decisions on the remaining part of the economic system become so great that indirectly it controls almost everything. . . . There is, then, scarcely an individual end which is not dependent for its achievement on the action of the state.[14]

Possibly the most frightening illustration of this eventuality involved Winston Churchill's unsuccessful efforts between 1933 and the beginning of World War II to warn the British people of the imminent danger posed by Nazi-Germany's massive peacetime military build-up.

Although a member of Parliament and a former cabinet minister, Churchill was prevented from addressing the nation over British radio because his jaundiced view of Hitler clashed with the Chamberlain government's official policy of appeasement. His government was able to thwart Churchill's timely warnings (and freedom-of-speech) precisely *because* British radio was a government-controlled monopoly administered by the British Broadcasting Corporation, which permitted no private competition.[15]

The process by which U.S. federal courts have realized their current dominion over public education further vindicates Professor Hayek's

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foresight; albeit, in a more complex manner than Mr. Churchill's experience reflects.

### The Education Monopoly

Through their respective fiscal powers over the past several decades, federal, state and local governments have successfully diverted enormous amounts of resources to public education from private sources. Since public education is, in this manner, financed by non-refundable tax revenues rather than tuition fees, taxpayers are compelled to finance public education *whether or not their children actually attend public schools.*

This anomaly sharply reduces the range of available educational options for most parents, since few can afford the luxury of private tuition on top of a steadily mounting tax burden that already includes the $80 billion or so annually earmarked for public education. Hence, a large majority of parents have no alternative but to educate their children through what is, in effect, a public education *monopoly.*

But public functions involve government control and interference. As a result, unelected federal judges routinely seize control of public school districts from their democratically elected local school boards and, with impunity, make a mockery of Jefferson's "consent of the governed" by imposing onerous forced-busing requirements consistently opposed by 80 per cent of the American people.

Moreover, the informal check that traditionally accompanies private sector functions—i.e., the public's ability to withdraw its patronage and take it elsewhere—has simply been foreclosed by government's role as sponsor of the public education monopoly. In the final analysis, parents of public school students are a "captive audience" who have lost the freedom to decide even such basic matters as whether their children will attend neighborhood schools, or be bused across town at the whim of judicial social engineers.

Finally, economic freedom plays an important role in the exercise of liberal democratic procedure, and its erosion portends harm for certain aspects of the American political process.

One of the hallmarks of liberal democracy is its provision of a formal institutional framework for political opposition, without which elections become merely *pro forma.* It is therefore disquieting that recent restrictions on campaign expenditures pose a threat to the vitality of political campaigns by opposition candidates.

That is, the greatest challenge facing non-incumbent presidential candidates lies in their ability to achieve sufficient media exposure to mount an effective challenge. Often

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this is accomplished only by spending far greater amounts than an incumbent President, who enjoys the considerable advantage of free national exposure as an appurtenance of holding office.

Hence, to the extent that the expenditure limits imposed by the Election Campaign Act of 1974 serve to reinforce an incumbent President's already substantial advantage over challengers, they make political opposition just that much *more* difficult for any candidate whose party is out of power.

The Election Campaign Act also limits political campaign contributions by corporations and private individuals. Its chilling of First Amendment rights notwithstanding, the law contributes even further to the already substantial burden borne by challengers for public office.

Again, challengers must often outspend the incumbent by a substantial margin just to achieve equal name recognition. Any law limiting the size of individual contributions must, on the margin, work to reduce a challenger's opportunity to raise sufficient funds to compete adequately against the advantages of incumbency.

Clearly, economic freedom is more than merely a function of material well-being, it is an essential prerequisite for the realization and enjoyment of practically every aspect of democratic liberties. For a government to interfere with so fundamental a freedom—as "social-democracies" unquestionably do—is for it to simultaneously undermine a broader range of freedoms which it is the very purpose of democracies to protect. "Social-democracy" is, therefore, a contradiction in terms.

## —FOOTNOTES—

[1]F. A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1972), p. 114.

[2]Yale Brozen, "The Law that Boomeranged," *Nation's Business,* April 1974, p. 71.

[3]J. Gould and G. Bittlingmayer, "The Economics of the Davis-Bacon Act" (Washington, D.C.: American Enterprise Institute, 1980), pp. 61, 67.

[4]F. R. Welch, "Minimum Wages: Issues and Evidence" (Santa Monica, Calif.: The Rand Corporation, 1978).

[5]Jack Hirshleifer, *Price Theory and Applications* (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1976), p. 377.

[6]Robert Moss, *The Collapse of Democracy* (New Rochelle, N.Y.: Arlington House, 1975), p. 100.

[7]*Ibid.*, pp. 101–102.

[8]*Ibid.*, p. 105.

[9]*Ibid.*, p. 105.

[10]Quoted in F. A. Hayek, *The Constitution of Liberty* (London: Routledge, 1960), p. 267.

[11]Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1974), p. 9.

[12]Editorial, "The New Morality," *The Wall Street Journal,* February 7, 1980, p. 26.

[13]John Lofton, "Private Schools Face IRS's New Despotism," *Human Events,* December 9, 1978, p. 8.

[14]Hayek, *Road to Serfdom,* pp. 60–61.

[15]Friedman, p. 19.

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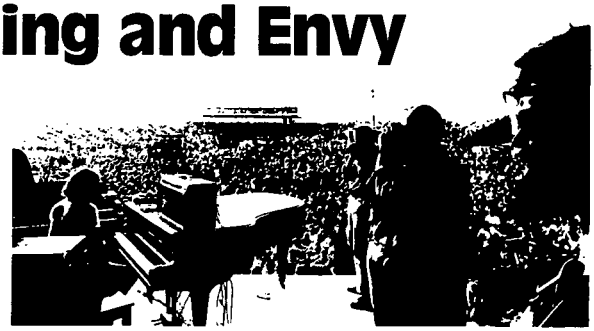
Gary North

# Scalping and Envy



"Scalpers." What a terrible-sounding word. It almost rivals "scab." In each case, the detractors have singled out an important function in a free market society. The "scab" is anyone who is willing to work for a businessman for less than a labor-union member is willing to accept. A "scalper" is anyone who wants to bear the uncertainties of the market for entertainment tickets.

Every so often, especially the night of the regional "big game," we see a television interview on the evening news. The interviewer goes to the scene of the Big Event and starts asking people about ticket availability. Invariably, he approaches someone who complains about "all the scalpers who are ripping off the public." Once in a while, he may even get a "scalper" to discuss his business.

Another less familiar aspect of the scalping business also gets reported occasionally. The "patriotic" radio news commentator announces with glee that at the Detroit appearance of The Rolling Stones, scalpers could not sell all their tickets and had to take less than they had paid for them. Or: local T.V. announcer interviews scalpers; finds tickets "going begging." Big news. Man bites dog. Market bites scalpers. Justice reigns. The bad guys finished last.

Why the hostility to scalpers? What is it about scalpers that makes people so angry? Why is "buying low and selling high" so reprehensible when amusement tickets are con-

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cerned? After all, we are not talking about life and death. We are talking about "State vs. Tech." We are talking about the price of having one's ear drums blown out at a rock concert.

### Bad Vibrations

The *Los Angeles Times* published a series on ticket scalping in April of 1976. The introductory paragraphs of the April 8 article reveal the general attitude toward scalping ("Hard Day's Night at the Box Office"):

> There wasn't a single advertisement preceding the recent sale of tickets for Paul McCartney and Wings' two upcoming Los Angeles concerts, but some 1,500 people were in line when the Forum's box office opened. And while only brief items in that day's newspapers announced the sale, every seat in the 18,500-seat arena was gone in less than five hours.
>
> Box-office smashes like that may make a lot of people associated with the coming McCartney tour happy, but they make a lot of other people quite angry. So many fans are competing for so few spots to major rock concerts that selling tickets on a first-come, first-served basis is no easy task. Instead, determining just who's first and serving him or her has become a complicated and controversial affair.
>
> Concertgoers, backed by legislators and law-enforcement officials, are concerned about how tickets are sold and, often, resold. Some complain, for example, that by the time they hear that tickets are going on sale, the event is sold out. Others complain of waiting in line all night or longer to wind up with only fair seats. And nobody likes it when $9 or $10 prime tickets for sold-out concerts emerge at licensed ticket brokers for $20, $30 or more.

Let us examine some of the details of this critical analysis. (The author went on to consider in greater detail the actual sales of tickets in Los Angeles, so the article was not totally hostile to "scalping.")

First, Mr. McCartney and the promoters were displaying eminently good sense in not spending a small fortune on advertising when word-of-mouth advertising was sufficient. They could bank on his fame as a former Beatle to draw the crowds to the Forum. No one would suggest that it would have been wise for him to spend money to jam up the box office with extra thousands of ticket buyers who were bound to be disappointed.

The fact is, at least 1,500 people had heard in time to take steps to insure their presence at the Great Event. Or at least, they insured the legal right to attend; if they decided to sell this property right to someone else, then that legal title was transferred. Each ticket was a *property right to a seat* at the Forum.

It was true that "so many fans are competing for so few spots," that selling tickets on a "first come, first served basis is no easy task." From one viewpoint, it is also no sensible task. Why sell tickets that way? Why not hold an auction?

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### Competition

No one wants to suggest that the fans are in competition with Mr. McCartney. Mr. McCartney is the seller of his services. He no doubt delegated the task of selling legal access to his performance to other profit-seeking entrepreneurs, who guaranteed him and Wings a specific price, plus (perhaps) a percentage of the gate. But the public does not perceive the *initial* seller as a competitor with the public. The public sees the fans as competing against each other.

This is the proper perception. *Sellers compete against sellers.* Mr. McCartney was not, I feel certain, the only performer scheduled to appear in Los Angeles that night, or that week, or whatever period of time that affected the spending preferences of amusement-seekers in Southern California. Likewise, *buyers compete against buyers.* All those fans lining up in single file were acknowledging the reality of the competition. The seller (Mr. McCartney) was not in competition with buyers (fans).

Concertgoers may well be concerned with how the tickets are sold and resold. But why should legislators be concerned? No doubt, some people *did* complain that by the time they heard about the concert, it was sold out. *Information is not a zero-price commodity.* It travels along peculiar paths. No doubt others *did* complain about standing in line all night and only receiving mediocre seats. Mr. McCartney is a popular fellow. Is this blameworthy?

### Complaints About Price

What people were complaining about was this: *at zero price*, not all those who wished to see Mr. McCartney perform in a public auditorium could squeeze into the auditorium. But they did not want to admit this openly. So they complained about the price. Some complained by not attending. Others complained about having spent (the proper word) so much time waiting in line. They forfeited time, plus a few dollars, and got second-rate seats. Problem: there were not enough first-rate seats to go around. Any seat was a good seat in the eyes of those who wanted to go but who chose not to stand in line, and who then paid scalpers a higher price.

True, nobody likes to pay $30 for a $9 ticket. But, then again, nobody who is willing to pay $30 for a $9 ticket is happy when nobody will sell him the $9 ticket for $9. What is it that people like least? Paying $30 or missing the concert?

Why organize sales of tickets on a "first come, first served" basis? Why not organize sales some other way? The article showed how devious the distribution was. Thousands of tickets are set aside in the entertainment industry for friends of pro-

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moters, or disc jockeys, or others connected to the industry. The public is not aware of these sales (for the tickets eventually get sold, says the reporter). The public may know that college athletes at major universities are paid off in tickets each week, which are sold for cash, but that's only "innocent graft." Besides, they go to cheer these athletes, so who cares if athletes get a piece of the action? The seller, in this case, is the performer, and for some reason, nobody ever regards the seller as an enemy of the attendee, when sports or entertainment is the market in question.

Boxing has ringside seats. Sports teams have "season tickets," where rich people, or entrepreneurial fans who expect a losing team to start winning next season, can "stake their claim" to the "mother lode," namely, the best seats in the house. The public expects the best seats to be taken by others. The yelling starts when the *second-best seats* go on sale. (Note: the wealthy buyers are not envied—*social distance.*)

### The Risk Factor

How are competitors channeled? How do profit-seeking entrepreneurs get the best return on their investments? By buying low and selling high. By seeing a factor of production which is presently being underbid in the producer goods market, buying it at this low price, and then selling later into an enthusiastic final market. But there is risk involved (more properly, unpredictable uncertainty). No one can be sure that the crowd will show up. In the case of rock concerts, no one can be sure that the entertainers will show up. People bear uncertainty. They pay their money and they take their choice. People buy low, *hoping* to sell high. There are no guarantees.

Why not charge $30 at the box office for those seats that everyone is willing to pay $30 for? Why sell $30 seats for $9? After all, in the final analysis, they were not $9 seats; they were $30 seats. They were $30 seats that sold for $9 *originally*, just as much as they were $9 seats that sold for $30 *finally*. Somewhere in between "originally" and "finally," there was a lot of *uncertainty.*

"In the final analysis": what a loaded phrase. In the final analysis, meaning the night of the performance, there was more demand for $9 tickets than supply of $9 tickets. So tickets traded at prices higher than $9. There were more buyers at $9 than sellers at $9. Buyers were competing against buyers the night of the performance. There was, however, one difference: the competing buyers were no longer standing in line to buy. They had entered the quiet auction market for tickets. (It had to be quiet, since it was officially illegal.) Cash had replaced the line.

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### Lining Up

There is some peculiar mystique about forming a line. All over the world, people dutifully line up. They line up in grade school, they line up at the Post Office, they line up to buy tickets. They certainly line up to spend ration coupons in socialist nations. In fact, a balloonist who lost his way in Europe could find out whether he was over a socialist nation or a free nation simply by looking down and checking the length and number of lines. People also line up to get out of socialist nations, in order to escape into nations that substitute other forms of economic competition. *We line up when someone is charging below-market prices.*[1]

The concertgoers, on the night of the Great Event, know that all tickets are sold out. There is no reason to stand in line any longer. So they substitute a different form of economic competition. They offer $30 for $9 tickets, meaning tickets bought for $9 *before* the Great Event had sold out. These were tickets that cost $9 *plus 15 hours in line*. They were "$9 and 15-hour" tickets. They were "word of mouth information before the crowd shows up" tickets. Now demand *at $9* is much higher.

For most people, $30 is a lot less expensive than 15 hours in a line overnight. Whose time is worth under $2 an hour ($30, minus $9 = $21 for 15 hours)? Those who value their time more than they value $30 can exercise their preference in a voluntary transaction. Why do legislators try to ban such transactions? Why do voters demand that legislators pass laws against scalpers? Why is it considered legitimate to *spend hours* to buy a ticket, but not to *spend money* above the listed purchase price? Why are initial sellers the friends of the public, and secondary sellers the enemies of the public welfare? If Mr. McCartney is not the public's enemy, and the box office is not, then why is the scalper seen as the public's enemy?

### Motivated by Envy

I will offer my suggestion: Because we are a nation of incipient socialists who are motivated by *envy*. We want those who are *close to us socially and economically*, and who prosper (perhaps) temporarily, to be deprived of their benefits. This has been pointed out by sociologist Helmut Schoeck, in his brilliant book, *Envy*.

> . . . envy is not directly proportional to the absolute value of what is coveted, but very often concentrates upon absurd trifles to such a degree that, in some situations, the best means of protection against the envy of neighbour, colleague or voter is to drive, say, a Rolls-Royce instead of a car only slightly better than his, or, if Brighton is his resort, to choose a world cruise rather than a holiday in Sicily. In other words, overwhelming and astounding inequality, especially when it has an element of the unattainable, arouses far

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less envy [than] minimal inequality, which inevitably causes the envious man to think: "I might almost be in his place."[2]

We worry about someone receiving $30 for his $9 ticket, but not at all about Mr. McCartney receiving $150,000 for three hours of work. If we view Mr. McCartney's performance as having nothing to do with his years as a Beatle, then he is earning, say, $45,000 an hour ($150,000, minus expenses, divided by three), while the person selling the so-called $9 ticket is earning under $2 per hour for his 15 hours in line. Yet we are outraged at the scalper. *He* has exploited the public.

What is the difference? The *social distance* between us and Mr. McCartney. The awe and even reverence we show for Mr. McCartney's talents as a performer place him beyond envy. (Also, he has a British accent, making us feel terribly inferior, thereby increasing his social distance.) But that scalper who makes someone pay 30 whole depreciating dollars—*there* is a man to be squashed!

We stand in line to see Mr. McCartney. He has put us in our place. But the scalper has no right to put anyone in his place. He is a *secondary* seller, indicating his social proximity to us. He seeks to deprive us of our funds, unlike the performer, who deprived the scalper of *his* funds.

When standing in line is seen as a legitimate way to gain access to any event as a *primary consumer*, but asking someone else to pay money above the listed purchase price is seen as exploitation by a *secondary seller*, then the ideology of socialism has done its work. When men refuse to acknowledge that they are unwilling (or unable) to pay the price to become primary consumers—i.e., people who will stand in line overnight—and resent it when a primary consumer asks the secondary consumer to pay a premium for his own procrastination, or his unwillingness to stand in line, or his late access to the news about the Great Event, or his impulse-buying attitude, then the free market economy is in trouble.

## Middlemen

The late-night T.V. ad blares the message: "Yes, we can offer you these fabulous prices because *we have eliminated the middleman*. We sell direct to the consumer, and we can pass along these bargains to you."

What a fabulous opportunity! At last, we can buy direct from the producer. No more having to shell out our hard-earned money for middlemen. After all, what do middlemen ever do except stand around in the middle? At last, some inventive seller has found a way to eliminate the middleman. And it only took 6,000 years!

There are producers. There are buyers. Where did the middlemen get

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into the act? Why should we pay anything to them? Aren't they economic exploiters? Why should business tolerate middlemen? These are questions implicitly asked by those who despise scalpers.

All right, there are producers. They made a decision to buy low and sell higher. They entered the market for producer goods—raw materials, labor services, capital equipment, land, buildings, and so on—and bought up what they then believed were underpriced goods. They now are sitting on top of a pile of merchandise. How do they get the highest return?

The tried and true method is to sell it to non-producers (retail sales people) who in turn will market the finished products to the final consumers. They take over the economic burden of predicting an uncertain future. The producer wants out. He takes his money and runs.

Occasionally, some producer decides to "sell direct to the consumer." Fine. Who rents the warehouse space? Who insures against fire and theft? Who decides how much to spend on advertising, and in which media? Who tries to predict the final purchase prices that the buyers will be willing and able to pay in the future? Who rents the showroom space? Who dreams up the credit terms, locates the creditor, and convinces the buyer that "now is the time to buy"? Who, in short, enters the market in between *originally* and *finally*? Someone has to bear these expenses. Someone has to be compensated for bearing these uncertainties. Something "in the final analysis" has to lure people into the uncertainty-filled marketplace to pick up this burden. That person is the *middleman*. He is also called the entrepreneur, or the speculator. And, in the case of tickets, he is called a scalper.

### The Box Office Dilemma

The box office sells at a specific price. Sometimes the people who own the box office are not sure what to charge. They want to fill the arena, so that everyone who wants to get in can do so, with nobody waiting outside, and not a single seat empty. That is accurate forecasting. That is the way to make money. And that is what nobody can do all of the time, or even some of the time, if the arena is large enough. A perfectly priced set of tickets will "clear the market": a packed arena, and nobody left in line.

So the owners of the box office, or the Ticketron outlet, or whoever is the primary seller to the primary buyer, decides on a price. The tickets get sold, let us say. The market then determines what the proper price should be in the moments before the performance. Sometimes the price was set too high. Sometimes it was set too low. The middlemen lose, or they win. The middlemen bear the burdens of uncertainty.

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Why are the original sellers so foolish? Why did those who had the right to hire the services of Mr. McCartney in April of 1976—to become the *first middlemen* in the distribution of Mr. McCartney's services—not charge $30 per ticket right from the start? Why did they pass on the $21 per seat profit (or whatever it was) to *secondary middlemen*? Why did they give up 18,500 times $21? Were they fools? Why were they, as professional middlemen involved in the entertainment business, such poor forecasters? If they are so smart, why are there scalpers?

### Seeking a Scapegoat

I have put this question to people associated with box offices, and I have never had a convincing answer. They are hiding something. I believe that they are hiding something very specific: *the fear of envy*. They do not want to become "middlemen" — "gouging" middlemen—in the eyes of local ticket buyers. They do not want to face the wrath of buyers at the auction, when buyers shout and claw to get access to the tickets. They want to be as unobtrusive as possible, collecting their percentage. They do not want to be seen as "enemies of the fans."

It is also possible that they do not want to have to guarantee an even larger fee to the performer, since the performer will know in advance the price of the tickets. If the box office man takes too great a risk, and then cannot sell the tickets (rain, emergency, or whatever), he loses a fortune.

Another possibility: the performer is also guilt-ridden and envy-avoiding, and he fears being labeled an enemy of the fans. They will blame him if he asks $30 per ticket, so he demands that ticket prices be kept low, meaning *initially* low.

Thus, the brunt of the envy burden is borne by the scalper, who performs a fundamental function in society, namely, *envy-absorption*. If the scalper is to fulfill his role, the box office managers, performers, and ticket buyers need to establish scalping as immoral, illegal, and against the public interest. They all agree that there should be a law against this wantonly antisocial act. As the sociologist Kai Erikson notes, following a line of thought in the writings of Emile Durkheim, one of the founders of sociology: ". . . the term 'deviance' refers to conduct which the people of a group consider so dangerous or embarrassing or irritating that they bring special sanctions to bear against the persons who exhibit it. . . . The only way an observer can tell whether or not a given style of behavior is deviant, then, is to learn something about the standards of the audience that responds to it."[3]

By establishing by law the *devi-*

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*ance* of scalping, those who would otherwise be faced with the problem of envy pass it along to another group, whose economic self-interest in profiting from the price spread is greater than their fear of envy. In short, scalpers exist primarily because of economic uncertainty and widespread envy.

### The Price of Envy

The hostility of the public against scalpers is indicative of almost universal hostility to entrepreneurship in general. There is an unstated assumption in the minds of people that profits that come strictly from the successful prediction of the future demands of consumers, and from one's willingness to enter capital markets as a preliminary buyer, are immoral profits. We are still caught in the Marxist web of the exploitation theory. We still act as though profits from anything except physical labor are "unearned profits."

The scalper is probably the least harmful "exploiter" in the world. He makes his profits from the purchase and sale of tickets to entertainment events. Ironically, the few profits any scalper can make, and the envy he receives from those who are helped by his actions (late-comers who would not be able to get in if someone else had not had the foresight and courage to buy up tickets), are the direct result of Americans' unwillingness to stand in line. The very feature of socialism that is so repulsive to Americans—long lines—is encouraged by the potential envy shown toward box office managements, who become fearful of successfully forecasting future consumer demand. The auction market for tickets is one of the most resisted auction markets in America, yet those who resist the auction process are also repelled by lines. *Below-market pricing creates lines.*

Scalping is not that critical to the daily lives of most Americans. We seldom attend sold-out performances. We are too busy watching television. What we expect when we do schedule a night on the town is a price structure rather close to television's pricing—without the ads, of course—and time spent in getting a ticket not much longer than the time spent in switching on the T.V. set. When we find that others just like us have also waited until the last minute to show up, and the underpriced tickets are all gone, we vent our wrath on the scalpers. They are, in effect, professional wrath-receivers, people who take the heat of envy off of the timid shoulders of performers and box office managers.

If we all appreciated the economic service scalpers perform, the market for scalping would dry up rapidly. If there were no wrath, no envy, and no complaints about high prices—*complaints really against all of our competitors* who are also trying to

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buy tickets to the Great Event—then performers and box office managers would get into the market and begin to "sell directly to the public." They would bear more of the burdens of middlemen. (Of course, they might announce that "We can sell you tickets at low, low prices because we have *eliminated* the middleman.") We would get professionals who ought to be the best forecasters of consumer tastes in entertainment to enter the forecasting market. We would see a better fit between the price *originally* charged and the *final* size of the audience. There would be less waste. There would be far shorter lines. And there might even be more advertising, thereby allowing those of us who are always the last to hear about anything, to find out in time to get on board. But if the scalpers are going to make all the profits, why should the performers or box office managers advertise? Conclusion: *with less envy, there would be better information available to the general public.* Of course, such information is not free. We would all pay for it in the purchase price of the ticket. But isn't that better than avoiding the advertising costs by not hearing about the opportunity in time? We will pay the scalper anyway. Or miss the event.

Men resent the fact that they are willing to pay "outrageous" prices for sports events and entertainment, meaning live entertainment, one-night-only entertainment. They resent the fact that people get some profits as secondary middlemen who cater to their "base" desires. The very rich—performers, Forum owners, and Sol Hurok — are entitled to their profits, but not people sufficiently like ourselves to bring out our envy, yet sufficiently unlike us to stand in line all night, or go out immediately to buy some extra tickets. Such people are our sworn enemies, so we wind up paying more for our base desires than we otherwise might have paid, had the Forum or Ticketron been uninhibited by fear of the public's envy to charge "all the market will bear" right from the beginning.

## Conclusion

Are we resentful? Against whom? Do we resent long lines? Then let us pay the higher *monetary* price which will shorten the lines. By pressuring the *initial sellers* of tickets to keep monetary prices lower than true market (auction) prices, we grant a kind of subsidy to those who value their time spent in lines relatively low. They get the tickets, either to use personally or to sell to those of us who value our time more highly. Below-market *monetary* pricing does not lower the *economic* price of any asset; it merely substitutes other forms of payment. The auction is merely delayed until the night of the performance, when late-comers and scalpers get together to transact

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business at true market monetary prices. Time has its price.

Do we resent the fact that we never hear about the Big Event in time? In time to do what? Stand in line? But we probably choose not to stand in line. If prices are set below the market's true monetary price, we still will miss the Big Event, unless we pay the scalpers their due. Hearing about the Big Event earlier cannot do us any good if monetary prices are set below market. Why not encourage higher monetary pricing for the initial sale—the prices stamped on the tickets—and thereby encourage the seller to advertise heavily to all of us who hate to stand in lines, and who are *ready to pay* for our preference? If we are not ready to pay higher monetary prices, why should we be resentful about not hearing in time? Time has its price.

In an age of envy, the scalpers will get their due. We live in an age of envy.[4] No economic resource is free, including the indulgence of our propensity toward envy. The scalpers let us indulge ourselves . . . at a price.

## —FOOTNOTES—

[1]Gary North, "Step to the Rear, Please," *The Freeman* (March, 1975).

[2]Helmut Schoeck, *Envy: A Theory of Social Behavior* (New York: Harcourt, Brace, Jovanovich, 1970), p. 62.

[3]Kai T. Erikson, *Wayward Puritans: A Study in the Sociology of Deviance* (New York: John Wiley & Sons, 1966), p. 6.

[4]Gary North, *Successful Investing in an Age of Envy* (Sheridan, Indiana: Steadman Press, 1981).

IDEAS ON LIBERTY

### The Price System

THE PROBLEM is whether to transmit the detailed knowledge of special circumstances to a central agency, or to transmit the general information to the individuals who have the detailed knowledge. The detailed knowledge is too voluminous and nebulous for transmittal or for assimilation, and no one could know what parts should be selected. The general information, however, is summarized in prices.

Just that part of the general data that is relevant to an individual's decision is summarized in prices. If a price goes up, that tells him everything he needs to know to guide his action; he does not need to know why the price went up; the fact that it did go up tells him to try to use a little less or it tells him to produce more of the commodity, and how far to go in his efforts.

Not only do prices convey information on how an individual *should* act, but they provide at the same time a powerful inducement for him to do so.

W. ALLEN WALLIS

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Dennis Bechara

# Cutting the Budget

THE current attempt to curtail government spending has stumbled on numerous roadblocks. Any effort to reduce the size of government is always faced with an articulate and well-organized opposition. Scores of social scientists are willing to testify before Congress that if the government eliminates this or that social program chaos will result. Congressmen are bombarded with hysterical pleas from constituents not to slash pet government projects. Public opinion polls and the press publicize the people's fear that "their program" will be cut. And beneath it all is the suspicion that only the wealthy will truly benefit from a reduction in government spending.

To succeed in reducing the size of government, it is imperative to understand the nature of the democratic process and the cause of the organized opposition to those efforts. A major reason for such opposition is that the benefits of government projects are distributed to small groups of recipients, whereas the cost of such programs is dispersed throughout the population. Therefore, any single government spending program represents, to each taxpayer, a small increment in his taxes or in the cost of government. However, to the beneficiaries of the program, the proposed spending represents a significant infusion of capital. So, it is logical for the proponents of the different spending bills to marshal their forces and actively lobby for such measures. The individual taxpayer, on the other hand, finds it

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more costly to oppose a given program than he might save in taxes in its absence.

To their further advantage, the champions of government spending are able to point to the specific project as evidence that they have created employment and consequently have favored a group that is deserving of aid. The opponents of government spending, on the other hand, cannot show what jobs have been created or preserved in the absence of government spending and intervention.

R. L. Schreadley, Executive Editor of the Charleston, S.C., *Post-Courier*, came to the point in his editorial of December 27, 1981: "What we don't see, what nobody sees or records, are the buildings, the jobs, the hope that might have flourished *within and without the cities* had federal bureaucrats and their eager accomplices not succumbed so long ago to the dangerous business of believing themselves more prescient than the market. . . . You do not make a bad investment good by salting it with taxpayers' dollars. (Except, of course, for the lucky developers up front who are quick enough and smart enough to take the money and run.) You do not restore confidence in the financial future of the cities or of this country by requiring taxpayers to assume risks no prudent private investor would take."

Since government has no resources, it either taxes, borrows, or simply prints new paper money in order to finance its activities. Any government spending must necessarily have a corresponding effect on the economy. If government were to tax in order to raise revenue, this represents a loss of investment and savings from the private sector, which is also translated into a loss of jobs. Therefore, the jobs created in any government project which is financed by taxation implies the elimination of jobs in the private sector. Similarly, if government spending is financed through borrowing in the capital markets, this means that the funds which otherwise could have gone to the private sector are being channeled into the government project. Higher interest rates are one of the consequences. If the printing of money is the alternative chosen by the state to finance its projects, that spells inflation.

The opponents of government spending projects thus appear to be the enemy of the deserving minorities who are the object of the government's largesse. Opponents are psychologically disarmed because they cannnot show precisely who will be harmed by the government program.

### The Democratic Aura

Those who would curb government spending face one further hurdle. Governments have traditionally attempted to justify spending and

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interventionist policies by placing the imprimatur of democracy on such activities. Governments have sensed the aura of legitimacy conveyed by the term, and they have disguised many of their economic policies in democratic garb. This tends to discourage criticism.

Examples of this are legion. The public school system exists as a result of laws which provide that the taxpayers must support the schooling of the community's children. Many taxpayers are opposed to the system, yet become involved in voting for membership in the local boards of education. Similarly, the raising of revenue has been democratized, as bond issues become entangled in the election process.

The National Labor Relations Act has instituted the system of democratic elections under which the employees of what the NLRB deems to be an "appropriate bargaining unit" may select a union as their representative for the purpose of collective bargaining. In addition, the Landrum-Griffin Act contains what is known as the "Union Member's Bill of Rights" under which certain democratic values are upheld.

Many other Acts of Congress, which call for government intervention, similarly provide themselves with the shield of democracy. This happens because Congress, in deciding to implement a program, does so after a process of consultation and after obtaining evidence through testimony in public hearings.

The impression that the process is democratic is always present in any legislative effort, because the Congressmen who approved the different spending proposals were popularly elected. Therefore, if the people were truly opposed to policies implemented by their elected officials, their recourse would be through the electoral process.

### Intervention by Way of Judicial Powers of Government

The judicial powers of government are also drawn upon to legitimize economic intervention. Administrative tribunals have been created under which governmental agencies exercise their control. The people who are the object of this scrutiny are thus made to feel that somehow the treatment was fair and democratic, because due process was followed. After all, notice was given to the parties, and an opportunity was afforded them to present evidence and to cross-examine the opponents' witnesses.

However, the most important aspect of government intervention is blithely ignored: its economic consequences. Rent control is a classic example. A bureaucratic agency may treat each case individually, applying the same formula to different landlords in order to determine the maximum prices they may charge.

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The landlord in turn may be able to establish, through a quasi-judicial proceeding, that there are other factors which the government ought to take into account in computing the rent. But despite recourse to due process, the effect of rent control will be felt. This will be the reduction of the available capital which will be devoted to building rental space, and the improper utilization of space, as tenants discover they can occupy more than they actually need because the price they have to pay for it is lower than its market value.

Similarly, claiming that government policies are democratic just because a majority of the people opted to follow the practice does not change its economic consequences. When the labor union, which was elected by a majority of the employees, obtains wage concessions from employers that discourage further production, the inevitable result is unemployment.

However difficult the task of reducing the size of government, it is not impossible. Essential to any fundamental change of policy is economic education. Once voters and taxpayers understand the economic implications of spending programs, the proponents of limited government will be in a more persuasive position.

The present economic crisis may well motivate us to discover the solutions to these problems. We are witnessing today many efforts to reduce the scope of government. These efforts stem from the crisis that is the result of the failure of interventionist policies. And this crisis, as Leonard Read says, "is sending up signals—messages loud and clear—that our past is filled with errors which inexorably produced their evil results. The consequences we suffer now were caused by past mistakes, and we need to know what wrong actions are responsible for these bad effects. The fact is, we are being graced with warnings which, when and if read aright, can lead to our salvation."

IDEAS ON LIBERTY

**Government Relief**

RESPONSIBILITY to oneself and family, coupled with the necessity of working to meet this responsibility, are the ingredients for human progress and the development of the individual personality. Government relief is a proven failure, a social evil, a destroyer of human personality. The greatest and kindest deed government could perform would be to remove the temptation of something for nothing.

RAE C. HEIPLE II

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Mark Hendrickson

# Teachings of Soviet Experience

OF ALL the many lessons that the Free World can learn from the Soviet "experiment" of the last sixty-four years, the most urgent is that life under a socialist command system is far from the "workers' paradise" promised by Marxian ideologues. As Alexander Solzhenitsyn and many others have so thoroughly documented, the socialist order, trumpeted as the wave of the future, is maintained only by the most brutal measures. The fact that the socialist state depends upon force for its continued existence is powerful evidence that free individuals would promptly reject such an inhumane system.

Economically, poverty has been institutionalized in the Soviet Union. Sociologically, a well-defined class structure has emerged, with special privileges accorded at the wish of the ruling elite. Politically, individual rights have been trampled upon and extinguished by ruthless despots. Spiritually and morally, the beliefs that the state is supreme and that the end justifies the means have taken human beings to the depths of depravity, as many have become willing to betray, enslave, and even torture any number of innocent victims. Is it any wonder, then, that "Whoever can 'votes with his feet,' simply fleeing from this mass violence and destruction"?

## Economic Lessons

Economic laws, like the laws of physics, are discovered, not devised by men. The Communist rulers of the Soviet Union have tried to re-

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**Mark Hendrickson recently earned a master's degree, with a thesis based on the works of Solzhenitsyn. This is condensed from a chapter of that thesis.**

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peal those inexorable laws, and, in spite of their repeated failures, they persist in issuing bureaucratic decrees that attempt to revise the way the world works. In their self-deluding hubris, they act as though all action will conform to socialist planning.

It is a fact of life that human beings value more highly and will husband more carefully what they own than what they don't own. That is why the small, privately owned garden plots which have been permitted in the USSR account for 62% of the potatoes, 32% of fruits and vegetables, 47% of the eggs, and 34% of all milk and meat produced in the country, even though these private plots constitute less than one per cent of the country's agricultural land.[1] Yet, in spite of this impressive record and the chronic problem of food shortages in their country, the Kremlin refuses to heed the sound advice of Russian exiled dissident Alexander Solzhenitsyn to "give up the forced collective farms and leave just the voluntary ones."

The productivity of industry also languishes under its socialist directors. One major reason is the lack of incentive for workers and managers when all profit goes to the state. "Technological improvements developed in costly research institutes are ignored because no one will profit directly by introducing them." Russians naturally want to profit as do all human beings. However, they don't stand much chance of profiting by honest means, so they sometimes resort to dishonest means for personal gain. Dishonesty, of course, occurs in all countries, but Yankee ingenuity would be hard put to duplicate this mind-boggling fraud reported in a recent article:

> When senior party officials dedicated a long-awaited, badly needed tractor-repair plant last year, "Pravda" (which means "Truth") extolled it as "not a factory (but) a beautiful work of art," and the responsible comrades awarded each other the usual round of medals. No such factory existed.[2]

Soviet experience has conclusively demonstrated that socialist production is inherently inferior to capitalist production. Lack of incentive is a major reason. But even if workers were uniformly motivated around the world, the socialist countries would be poorer because economic calculation is outlawed (de facto if not de jure).

### In a Capitalist Order

In a capitalist order, each individual demands what he values most in the marketplace. He indicates approximately how much he values different products by how much he is willing to pay for them. These approximate objectifications of value—called "price"—are the signals which communicate to producers what they need to produce, and at what cost, if

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they are to attract customers and stay in business. As consumers' hierarchies of values change moment by moment, these changes are transmitted through the pricing network. Entrepreneurs then seek to reorganize scarce factors of production so efficiently that they can offer a good that consumers want at a price which they are willing to pay, and still end up with a profit.

Because goods which are valued highly cost dearly (depending on the available supply) they tend to be conserved and used efficiently, and so greater satisfaction (greater prosperity) results than would be the case under socialism where the value-sensitive pricing mechanism has been rejected. Production under socialism is grossly uneconomical because the decrees of state officials supplant and suppress the economic values of individuals as reflected in prices freely arrived at in the market.

Socialist planning is uneconomical also because it is totally unsuited for coping with change. Whereas the prices of commodities in the United States fluctuate moment by moment on the commodity exchanges, reflecting shifts in supply and demand, and so enabling each commodity to go to where it is most valued in the economy, in the Soviet Union, commodities are allocated by state officials who are incapable of perceiving what the most urgent needs for any given good are at any given moment. Politics supersedes economics. When considerations of value are supplanted by considerations of power, chaos in production ensues. The only reason why the blind planning of the socialist commissars in the USSR has not resulted in total chaos and much more severe poverty has been that the Soviet leaders have been able to observe the allocation of resources in the non-socialized economies of the world.

### Copying Market Gains

Since Soviet industry is so notoriously unproductive, one may wonder why the USSR is nonetheless known as an industrial power boasting awesome military might and a leading role in space exploration. First of all, since the individual in the USSR has no rights, it has been relatively easy for the state planners to build up the military and space industries at the expense of consumer-oriented industries. Secondly, the Kremlin has imported vast amounts of technical equipment and knowledge from more productive (i.e., capitalist) countries, most notably, the United States. The Soviet rulers have purchased—often on credit, and on terms more favorable than Americans can obtain—everything from the miniature ball bearings which are essential for the accurate guidance of intercontinental mis-

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siles to the capital, technology, and managerial expertise used at the Kama River truck factory (the largest such factory in the world) where the tanks which have been used in Afghanistan were manufactured. Thirdly, Soviet agents have succeeded in pirating technology from the West.

Solzhenitsyn eloquently summarizes the pathetic performance of production under socialist planning in his homeland:

> What kind of country is it, what kind of great power, with tremendous military potential, that conquers outer space but has nothing to sell? All heavy equipment, all complex and delicate technology, is purchased abroad. Then it must be an agricultural country? Not at all; it also has to buy grain. What then can we sell? What kind of economy is it? Can we sell anything which has been created by socialism? No! Only that which God put in the Russian ground at the very beginning, that's what we squander and that's what we sell.[3]

## Sociological Lessons

The social structure of the Soviet Union is an egalitarian's nightmare. Far from eliminating class distinctions, the socialist system deepens and perpetuates them. Observers differ as to how many strata or "ranks" (to use a term which is apropos for the militaristically regimented social order) but they are unanimous in acknowledging a class structure that is so rigid that Russian critics refer to "caste expediency" and a "boss class." Favors are bestowed by the state; favors are taken away by the state.

Tremendous tensions must inevitably exist because of the way the social organization, the USSR's body politic, is presently constituted. The idea of class exploiting class, which is little more than a fantasy in a capitalist system where individuals are free to excel in the competition of servicing the needs of their fellows, is a cruel, ugly reality in the USSR.

The elite minority plunders the masses, and the masses know it. Certainly, some of the victims are fatalistic about their plight, but many others bitterly resent their exploitation. The present system may endure, or it may not, but one way or the other, violence remains the central characteristic of the USSR's social organization.

The use of forced labor in Soviet Russia is as characteristic of socialism as is the impossibility of calculating value. If the 40% of the Soviet population which are forced to work the collective farms as virtual serfs cannot feed the Soviet Union's population, and managers will take credit for the construction of factories which don't even exist, one can scarcely imagine how unproductive, or even counterproductive, the labor of the zeks (the prison camp inmates) is.

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In *The Gulag Archipelago Two,* Solzhenitsyn included several examples of the deliberate destructiveness of zek labor, and concluded, in something of an understatement, that the Soviet state (i.e., the people) is poorer as a result of using slave labor than it otherwise would have been. He also dispels the myth of the glory and honor of working in a socialist state, asserting, "The labor of the zeks was needed for degrading and particularly heavy work, which no one, under socialism, would wish to perform."

### Special Privileges Granted the Ruling Elite

Many amenities which a citizen can procure in the marketplace in the West, a Soviet citizen can receive only through the state. The greatest perquisites are, of course, reserved for ranking officials of the Communist Party. Solzhenitsyn tells us that they have country estates and that they ban the noisy maneuvers of the Soviet Air Force over those estates.

Reporter David K. Willis writes in the *Christian Science Monitor* (January 14, 1981) of special stores stocked with imported treats, of party tailors, travel privileges, spacious apartments, private lanes on the highways for official cars (which are chauffeur-driven luxury models, of course) and an entire "network of exclusive polyclinics, hospitals, and health resorts" ("It's rather like living in the West, only you're still here," explains one client) which the average citizen never even sees.

The doling out of privileges has been one of the major Pavlovian tools—the "carrot" to go along with the "stick" of prison camps—used by the Communist rulers of the Soviet Union since the Bolshevik coup to further their designs. That they have been successful in winning allegiance (however precarious it may be in some cases) is apparent to all. Solzhenitsyn cynically writes of scientists who "are rewarded with a life of plenty and pay for it by keeping their thoughts at the level of their test tubes."

The antisocial (i.e., anti-individual) acts of plunder and robbery—of institutionalized class exploitation—have prevented a genuine society, based on voluntary cooperation, from developing in the USSR. The present social organization—born and bred in violence, and maintained by violence—will ultimately perish in violence.

After decades of having their basic rights of life, liberty, and property restricted, attacked, and denied, the various ethnic groups—masses of angry, abused individuals—may very well over-react, lash out in a fury of pent-up resentment, and try to seize what they, in self-righteous rationalization, believe to be theirs. That is why Solzhenitsyn

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believes that the Communist dictatorship in his country needs to be succeeded by an authoritarian government, which would keep various elements of the population of the USSR from killing each other off. By keeping the peace—that is, by protecting the life, liberty, and property of all individuals—a strong government would protect those conditions which are necessary for the development of a true society comprised of individuals freely cooperating so as to promote their mutual well-being.

The most important sociological lesson to be gleaned from Soviet experience is this: when individuals band together with the intent of wringing natural individual inequalities out of the social structure by unequal applications of force, the inevitable result is a command system, a system which is necessarily ruthless to the degree that it insists on trying to undo what nature has done. Such a system destroys natural social cooperation, sows the seeds of future violence, and, in a perversion of its stated objective, eventuates in a social organization in which class divisions are more pronounced and less flexible than is the case in a free society.

### Political Lessons

In a system of free men, any individual who excels at satisfying the needs of his fellowman is rewarded by an impersonal market for his achievements. In such a system, service to one's fellowman determines wealth and privilege. In a socialistic command system, on the other hand, the way to privilege is to help keep one's fellowman under the subjection of Caesar. Personal favor determines wealth and privilege.

"In a country where the sole employer is the State, opposition means death by slow starvation. The old principle: who does not work shall not eat, has been replaced by a new one: who does not obey shall not eat." With those grim words, Leon Trotsky described the totalitarian grip which the communist rulers of the USSR hold on the populace of their vast territory. That is the reality of the political order in a socialist system—a system which Karl Marx viewed as progressive. As economist George Reisman has observed, "The complete and utter powerlessness of the plain citizen under socialism can hardly be exaggerated. Under socialism, the plain citizen is no longer the customer, 'who is always right,' but the serf, who must take his rations and like it."[4]

In the Soviet Union, the individual citizen is virtually without rights. This has been so ever since the Communist takeover. What the state (i.e., the ruling elite) wants, it takes. Those who once resisted the expropriation of their property in Communist Russia were liquidated. Those

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who object too vocally today are banished to Siberia or otherwise silenced. That is the nature of politics in a socialist state.

The public ownership of the means of production includes the public ownership of labor. Solzhenitsyn writes, "We are slaves there from birth." The ultimate form of slavery in the USSR is the zek, who is subjected to treatment far worse than that endured by most of the slaves throughout history. Most slaves in ancient Greece and Rome, and in pre-Civil War United States were regarded as private property. As such, their owners at least had an incentive to keep them healthy. The zek, on the other hand, belonging to the state, is in a position in which none of his supervisors finds it in his self-interest to be concerned about the zek's well-being, and so millions of zeks have found their prison term tantamount to capital punishment.

### People Are Expendable

The experience of applied socialism in the Soviet Union demonstrates that the welfare of the propertyless citizen is of little concern to the state authorities. Subjugation is all that matters to the bosses. This has always been the case. Solzhenitsyn relates that the Volga famine of 1921 illustrated "a typical Communist technique: to struggle for power without thinking of the fact that the productivity is collapsing, that the fields are not being sown, that the factories stand idle, that the country is sinking into poverty and famine." In other words, the people are expendable. What had been heralded as the "dictatorship of the proletariat" has in reality become a dictatorship over those proletarians who manage to survive.

For decades, the official rhetoric has assured Ivan that his grandchildren would enjoy unprecedented prosperity, yet that promise is still far from fruition, and the achievement of affluence remains in the ever-receding future. The modus operandi of the political leaders of the socialist state is to plunder its subjects in the present and offer them a rosy picture of a distant future as compensation.

The despotism of the Soviet rulers is not an esoteric matter for political scientists in the West to debate as an academic issue. Rather, it is a phenomenon of tremendous import to every single Westerner, for the objective of the Soviet Union's overlords is to extend their hegemony over the entire globe. Is it logical to suppose that tyrants who have shown no compunctions about brutalizing and enslaving their compatriots would respect the life and property of peoples of foreign lands?

Solzhenitsyn has repeatedly reminded Westerners of one of history's oft-repeated, seldom-learned lessons: that the evil of tyranny

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grows ever more aggressive until it is bravely confronted and defeated. Those who try to appease tyranny will eventually find themselves attacked by those very tyrants, and if they are fortunate enough to be able to vanquish the aggressors, it will only be at a cost far greater than would have been necessary had an unflinching moral stand been taken against the tyranny at the outset.

Of the present incarnation of tyranny known as Communism, Solzhenitsyn writes, "... a concentration of world evil is taking place, full of hatred for humanity. It is fully determined to destroy your society." That may sound like melodramatic hyperbole to the average American, but it corresponds completely with the stated nature and objectives of the Communist movement, and, more importantly, it corresponds to the anti-human reality of life in the USSR and other Communist-dominated lands. Any thought that this menace will go away if it is ignored is wishful and dangerous thinking. It must be confronted.

## Moral and Spiritual Lessons

The well-documented villainies which characterize Communist rule are vivid examples of the destructiveness that results from accepting the relativity of morality. The essence of moral behavior between individuals is a reciprocal respect for rights, upon which basis free individuals may enter into voluntary associations (contracts) with others. On this moral basis, society and culture develop. Communist ideology claims to be a substitute for morality and rejects individual rights, traditional social bonds, and established cultural morés. The goal of communist ideology is to bring omnipotence to earth in the form of a socialist state.

Just as the Jacobins used appealing promises of liberty, equality, and brotherhood as an ideological justification for lawless violence, so also do the Soviet leaders use their ideology—that Communism will result in the "most radiant, most happy society"—as a justification for any act, including arbitrary mass murder.

Part of Lenin's ideology was that traditional rights must be violently eliminated. When Lenin encouraged the Russian peasants to seize land for themselves in the early months of his reign, he achieved his objective: to plunge the countryside into anarchy. This anarchy, of course, paved the way for Lenin and his cohorts to "save the day" and restore a sense of order. It is this divide-and-conquer technique (the destruction of social bonds and subsequent absorption of weak, isolated groups) which has been the Communists' primary method of enslaving the Russian people ever since the days of Lenin. This is what the Communist rulers *must* do if they are to

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achieve their goal of replacing a society of individuals with a collective. As Ludwig von Mises explained in his definitive work on *Socialism* (1922):

> To make Collectivism a fact one must first kill all social life, then build up the collectivist state. The Bolshevists are thus quite logical in wishing to destroy the social edifice built up through countless centuries, in order to erect a new structure on the ruins.

### The Marxian Religion

The ideology that asserts that morality is relative, that materialism is the only truth, and that the state is supreme, is a religion. This Marxist-Leninist ideology is not yet perceived as a religion, but that is what it is. Like Christianity, it preaches a Savior—the socialist state—on the path to heaven—a stateless Communist world; it teaches that man's purpose in life and his present and future salvation depend on how well he serves this master, and it constantly appeals to faith, for many of its prophecies have not yet been fulfilled. Seen in that light, it is ironic that the thoughts of Jesus of Nazareth cannot be taught in the schools of the United States because of the separation of church and state, while the teachings of Karl Marx are subject to no such sanction.

The Soviet leaders do not tolerate any questioning of Marxian dogma. The official line is "He that believeth shall be saved." The problem is, when such major prophecies as: the workers of the West will sink steadily into total poverty; Communist revolutions will break out in the more advanced industrialized countries; wars occur only in capitalist countries—when all these major predictions are contradicted by the historical record of Soviet experience, nobody believes in the old Marxist-Leninist religion any more. However, the priesthood (the Central Committee of the Communist Party) retains the outward form of the religion, because it dares not relinquish its power and privilege. And so, like the Aztec priests of Tenochtitlán, who sacrificed human lives on the altar of the sun god, the Communist Party leaders sacrifice human lives on the bloody altar of Marxist-Leninist ideology, and so maintain their reign of terror.

In addition to teaching the West the nature of the Communist threat, Solzhenitsyn teaches us the most important lesson of all: how to triumph over it. He explains:

> We, the dissidents of the U.S.S.R., have no tanks, no weapons, no organization. We have nothing. Our hands are empty. We have only our hearts and what we have lived through in the half century under this system. And whenever we have found the firmness within ourselves to stand up for our rights, we have done so. It is only by firmness of spirit that we have withstood. And if I am standing here

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before you, it is not because of the kindness or good will of Communism, not thanks to détente, but due to my own firmness and your firm support. They knew that I would not yield an inch, not a hair's breadth. And when they could do nothing they themselves fell back.

Unceasing resistance is the lesson he would have us learn. And how, specifically, can the West resist the advances of Communism? Certainly by military means, but more importantly, by affirming a consistent moral position—practicing and promoting freedom of individual economic activity; not assisting the Kremlin through trade and aid; not signing treaties (such as the Helsinki accords) which legitimize Soviet aggression; refusing to live at the expense of one's fellow man; rejecting the insidious teaching that morality is relative and the end justifies the means; affirming in word and deed that all individuals have certain inalienable rights; being concerned with more than mere material ease, for liberty, if not vigilantly guarded, is lost. This is the message of Alexander Solzhenitsyn. If we heed his warning and emulate his courageous stance against Communist tyranny, the West shall indeed prevail against this aggressive, worldwide attack against individual liberty.

## —FOOTNOTES—

[1]Hedrick Smith, *The Russians* (New York: Quadrangle/The New York Times Book Co., 1976), p. 201.

[2]George Feifer, "Russian Disorders," *Harper's*, February 1981.

[3]Alexander Solzhenitsyn, *Warning to the West* (New York: Farrar, Straus and Giroux, 1976).

[4]George Reisman, *The Government Against the Economy* (Ottawa, Ill. and Thornwood, N.Y.: Caroline House Publishers, Inc., 1979), p. 164.

IDEAS ON LIBERTY

### The Lawyer's Duty

THE LAW is a "department of conservation," and you are one of its officers. Everything you do for a client, in your office or out, that is honorable and ethical, will be done to preserve his rights under God and the law. Your profession, therefore, is a conservative profession, because you are trying to keep this client as you found him, trying to preserve him, his person and his property and his liberty. The lawyer who is on the other side, who represents the state, in a criminal case, is trying to preserve the liberty of the man who was defrauded, or the man who was maimed, or murdered perhaps. From the beginning to the end of every lawsuit you are in the process of conservation. Consequently, I think that the division of our population into right and left, and conservative and liberal, is a fragmentation of the proper meanings of words.

CLARENCE MANION, "Right and Wrong—Not Right and Left"

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Lawrence W. Reed

# Toward Radical Monetary Reform

In the late 19th century and early 20th, the issue which occupied center stage of economic controversy was "the money question." From the time of the Civil War greenbacks through Bryan's "Cross of Gold" speech of 1896 until the establishment of the Federal Reserve System in 1913, politicians, academics, editors, and business people squared off in heated debate over the proper monetary policy for the nation.

After the dramatic events of the Great Depression and the creation of the post-war monetary system, the issue became relatively dormant as attention turned to other things. But recently, "the money question" has emerged in full force once again. Its resurrection has come, not coincidentally, as an aftershock of a financial earthquake of staggering proportions.

What has happened is that the monetary chickens have come home to roost. Decades of government-managed money have produced a frightening flirtation with runaway prices. The American dollar has lost at least 80 per cent of its 1940 value. The bond market has suffered fantastic losses. The devastation of dollar-denominated assets—savings, life insurance, pension funds, and the like—in *real* terms is tremendous. Faith and confidence in the future purchasing power of the dollar are everywhere in question.

We have been witness to nothing less than the historic *demonetization* of fiat money. The damage this process has wrought may yet assign government paper to the status of

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"barbarous relic" which Keynes once mistakenly ascribed to gold. Who can honestly survey the wreckage and pronounce of the monetary authorities, "This is a job well done"?

It is in this unfortunate set of circumstances that proposals for "monetary reform" are proliferating. It is not the objective of this essay to propose yet another or to endorse any particular one already advanced. Rather, the objective is to illuminate the intellectual path which any meaningful reform must take. The author leaves it to others to chart the specifics.

To begin with, monetary reformers must come to grips with something fundamental to the origin and history of money. They must rediscover what the Austrian economist Carl Menger told us in his path-breaking *Principles of Economics* in 1871: "Money is not an invention of the state. It is not the product of a legislative act. Even the sanction of political authority is not necessary for its existence."

### Of Natural Origin

The origin of money was entirely natural. It sprang from the awkwardness of barter and the desire for a marketable commodity to facilitate exchange. The first time man traded a good for something which he intended to use not for consumption himself but rather as a *means* to acquire what he really wanted, a medium of exchange—money—was born.

It was a revolutionary invention—the economic counterpart to the wheel — and it made possible trade and a division of labor inconceivable in a barter economy. It was truly an invention of the marketplace, of economizing individuals seeking to improve their well-being.

All sorts of commodities have served as media of exchange at one time or another. Cattle, cowry shells, furs and skins, wampum beads, tobacco, whale's teeth, cigarettes, and even rats are examples. Primitive though these monies may seem, they had the qualities of familiarity and acceptability which made them marketable and hence, candidates for money.

In most markets of the world, the precious metals emerged as the primary money commodities. Durability, divisibility, high value in small quantities, and relative stability in purchasing power over time were characteristics which no other commodities could match. As early as 650 B.C., coins of gold and silver became almost singularly synonymous with the term "money" in the trading world.

Paper arrived later on the monetary scene as a "money substitute." It took the form of promissory notes which pledged real money in payment for goods. Issued by early banks, for instance, they were re-

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deemable or convertible on demand into the precious metals they represented.

### Inflation Involves Government Control over Money

Governments, afflicted with an insatiable appetite for revenue, have generated history's inflations by first assuming control over money. Then gold coins became only partially gold or without gold at all. Paper notes, stripped of their "backing," became "fiat"—their value tied to the whims of the inflating authority. Monetary history records no instance of a people voluntarily choosing in the marketplace to use unbacked fiat paper as their money!

The problem with so much of monetary economics today is that it does not fully comprehend the inescapable conclusion that money is a market phenomenon—that it originated in the market, that it evolved in the market, and that the market laws of supply and demand apply to money just as they do to any other commodity traded in the market. I submit that no monetary reform is likely to succeed if it treats money as the invention and exclusive domain of a political monopoly. *The essential task of true monetary reform, then, is to find a way to divorce money from politics and make it as much a product of the market as possible.*

In this vein, the many proposals which call for minor alterations of the government's monetary function sound a little like rearranging the deck chairs on the *Titanic*. Simply putting a different crew in charge of the ship or experimenting with the compass are not radical enough. In this case, the market may be just the lifeboat we should be looking for.

The objection may be raised, "Without a central authority, how will anyone know what the supply of money should be?" Well, does anyone know what the supply of green beans should be? How many quarts of milk should be produced? How many size 36 undershorts there ought to be? How is it that the market is able to provide these things without central planners and in just the right amounts?

The answer, of course, is the market's mechanism of price. When costs are low and price is high, the signal to producers is, "Make more!" Producers know they should not pile up any more when costs exceed price. Why shouldn't money respond similarly?

When gold was money, this mechanism certainly did work reasonably well. As long as it was profitable to mine gold, producers did. "Too much gold" on the market caused the value of gold to fall and the cost of mining to rise—a double whammy that prevented producers from engaging in a continuous inflation. The supply of money, therefore, had

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something to do with the real market demand for money.

With today's fiat money, the mechanism is short-circuited. Double digit price inflation is the market's way of signaling that there's too much of the green stuff around, but the signal never directly strikes the producer. There's no chance that he will go broke in the process of creating more than the market demands. For the inflator of fiat money, the incentives are perverse: he grows bigger the more he does the very thing he shouldn't be doing!

It is no sure bet that the debate over monetary reform will deal fundamentally with this question of political versus market money. We have lived for so long with the former and its ruinous consequences that suggesting the radical alternative may be tantamount to the impossible task of teaching blind people what it would be like to see.

Once it was believed that witches, warlocks, and demons were the causes of such calamities as bad weather. Elaborate contrivances were devised to drive them away. When men learned that it wasn't so, they looked for more natural, scientific explanations. Perhaps it is time to relegate to superstition the idea that government should manage money and get on to the task at hand—putting money back in the marketplace where it belongs.

IDEAS ON LIBERTY

**Currency Reform**

UNDER present ideological conditions no one could possibly conduct a successful currency reform. To save the United States dollar would require a complete reversal of present economic and monetary policies of the United States government. It would not suffice merely to stabilize the currency through credit restrictions and the reduction of spending sufficient to result in balanced budgets. For such a solution would immediately throw the American economy, which has more than six million unemployed even during boom times, into severe depression and unemployment. No political party would dare to recommend, much less administer, this medicine for monetary stabilization. Therefore, the currency reform necessitates a simultaneous economic reform that reduces the unbearable burden of government intervention. Business taxes, which are among the highest in the free world, would have to be lowered considerably, and the markets freed from bureaucratic intervention. At the same time, the numerous legal immunities and privileges of the labor unions would have to be abolished in order to restore a flexible labor market.

HANS F. SENNHOLZ, *Age of Inflation*

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Joseph S. Fulda

# THE NEW BONDAGE

In a courageous address to the delegates of the NAACP convention, President Reagan spoke of "a new form of bondage" and offered blacks, as he did all Americans, a greater measure of economic liberty. The New York *Times* was quick to notice that the selfsame programs responsible for the new bondage form the President's much-vaunted safety net. But there is no contradiction. The President was making a sensitive point about the nature of government nets. "One moment they're under you, the next moment they're on top of you," he was reminding us.

The realization that dependence on the state invariably leads to subservience to the state may come hard in countries whose democratic forms often lend themselves to a most mischievous confusion of government with society. But as Hamilton noted, "power over a man's subsistence amounts to a power over his will." Such power is what Hoover meant when he wrote of "the terror of effective deprival to any man of his business and his livelihood." These men understood that the dependence of free men and women on the state for their sustenance, what we might call the paradox of democratic socialism, would soon undermine the blessings of liberty in which they believed so fervently, each in his own way. It is in this context that the new bondage must be understood, for those to whom we give as much as those from whom we take are stripped of some of their dignity and personal freedom.

Let us examine the underpinnings of the new bondage. The annals of government intervention will

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show a decided propensity on the part of government to control what it does not support. Such diverse entities as local governments, business enterprises, private schools, and our lives come under this head. But rare indeed is the agency of government which proffers support without demanding a measure of control. Nor has such control been found unconstitutional; as one judge wrote, "It is hardly lack of due process for the Government to regulate that which it subsidizes." One can even argue, as Senator Barry Goldwater has, that the appropriation of tax monies ethically requires some regulation of their use. Legally, ethically, and historically, then, subsidy and regulation have been inextricably intertwined. Such an observation, to be sure, is no argument for the regulation attendant upon subsidy, but rather an argument against subsidies in the first instance.

### Sacrificing Self-Reliance in Return for Government Aid

Examples of the subsidy-regulation nexus abound. New York City, the Chrysler Corporation, and the national endowments have each sacrificed something very dear to the American tradition in return for the financial blessings of the state: a tradition of self-government older than America herself, the autonomy of private enterprise, and artistic integrity.

Under the system of regulated subsidies, government has extended itself into all the nooks and crannies of heretofore private life: charity, education, medical care, agriculture, trade, production, scholarship, art, and family relations. We tell our poor where to live—in housing segregated by social class—and how much to eat—and thus how much to weigh. We tell parents what their children must learn—the virtues of the state, the new morality, and our debt to ape-like creatures—and what they should eat for lunch. We tell our elderly what transportation to use and when to use it—malfunctioning state-run systems at odd hours. We decide what medical procedures to allow—unnecessary operations, for example—and when home care can be funded—when salutary and relatively inexpensive, but even then only with presidential intercession. We tell our farmers what crops are desirable—tobacco, for example—and what crops must be restricted—peanuts, for example. We tell our business community what merits encouragement—enterprises so forlorn as to attract no investors without subsidy—and what deserves discouragement—companies so successful that they can outproduce and undersell their competition. We fashion all these specifications and regulations as citizens of a democratic state; we must live under them as members of a free society.

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### Subsidies Lead to Control

But inasmuch as the decision to accept a subsidy is voluntary, can the regulation attendant upon it truly be thought inconsistent with the philosophy of liberty? The answer, I believe, is in the affirmative and for three reasons. First, we have already remarked on the tendency of the state to regulate that which it does not subsidize. Such regulations often arise from the proverbial transmutation of the carrot into the stick.

All too often the real object of government is not to subsidize what the politicians believe a worthwhile enterprise or endeavor, but to regulate what is still a free enterprise or a social endeavor, with the subsidy a choice means to that typical end. Thus, what begins as a condition for Federal contracts may end as a condition for doing business with one's neighbor. What begins with subsidy as the reward for compliance with social goals may end with fines as the punishment for deviating from public policy. What begins when the state has not yet exhausted its resources and overtaxed its populace will remain long after the resources to support what has been taken over are gone.

It will be useful to contrast the regulated state subsidy with private employment or gifts granted in return for adherence to conditions established by the giver. The private employer cannot impose his conditions of employment on anyone who does not seek employment with him. The giver of gifts can withhold his largesse but can impose no fines. The state, on the other hand, is ever ready to cross the sharp moral line which divides not giving from taking.

It is for this reason, too, that those concerned with the growth of government should be wary of the state's assumption of additional functions, even if they are *completely* voluntary. Thus, even those government services or enterprises which are used only by those who so choose and which are completely funded by user fees are suspect. The Postal Service, after all, began with neither a monopoly nor a subsidy, but has long since acquired both. As long as the entity which owns and operates an enterprise is also the entity with coercive powers, what begins in freedom may end in compulsion.

A second objection to the regulation which attends subsidy is that the regulations issued often conflict with the rightful management of the tax monies involved. Thus racial guidelines for companies with government contracts, while voluntary, are an inefficient—not to mention immoral—use of public funds. Whether the contract is for sanitation or defense, it is best fulfilled without regard to social or political goals which misallocate resources.

Again the contrast with the pri-

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vate sector is helpful. A private business may indeed set any conditions it desires for contractors who wish to do business with it, for it operates with its own funds, has no public trust, and will moreover likely be severely penalized by the market if it persists in operating by uneconomic criteria. The state's funding, on the other hand, is obtained not by mutual consent based on recognition of the efficient use of resources, but by that unilateral system of resource absorption known as taxation. Thus a public trust to utilize funds economically arises.

### A Lack of Choice

Third, there comes the realization that acceptance of the subsidy is often not, after all, a full and free choice. Is the decision to send one's children to public school—to accept the state education subsidy—fully voluntary, or is the decision influenced by the forcible extraction of public school tuition monies via taxation? Not only does one have the sense that one has paid for the subsidy—that it is not a subsidy taken from others at all—one has been forcibly deprived of the resources to purchase the service on the market. State compulsory education laws leave no recourse, in the absence of such resources, but to patronize government schools.

Consider, as another example, our beleaguered automobile manufacturers. These once-successful giants have been saddled with a myriad of uneconomic regulations. Their ability to borrow funds for needed modernization has been hampered by incessant government issues. Their ability to use their own capital to modernize has been checked by a tax code biased against capital formation. Worst of all, for decades the demand for their product lines was distorted by an energy policy of price controls; the false signals which ensued led these overly trusting companies on down the road to ruination. After the state has thus crippled their ability to operate without subsidies, it beckons, privilege in hand; all it asks for in return is yet more control. More often than not, the large, failing enterprises that government "saves" and ultimately runs are in need of saving only from the consequences of prior government intervention. Again, this is no argument for subsidies to such enterprises, but rather an argument against the controls accompanying such subsidies while they continue.

Likewise, the poor man will find his needs attended to by a host of paternalistic agencies offering in-kind benefits that drastically circumscribe consumer choice. Why is it that in this fair land populated by a generous people, private charity, which the chroniclers of voluntarism tell us was once plentiful, is no longer adequate? Government con-

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sumes the major portion of personal income, ostensibly for eleemosynary purposes, that is why. As Albert Jay Nock observed some fifty years ago, we are as likely to refer the man in need of aid to the appropriate government agency as to aid him ourselves. By absorbing such a large portion of our resources, Nock continued, government usurps social and interpersonal initiatives as well. Indeed, it is no small tribute to the American character that so much that is worthy is still supported privately, without subsidy or favor, despite confiscatory taxation.

In sum, then, while the decision to accept a subsidy is not made under duress, a great many coercive measures in some manner or other impinge on it. The element of volition in the regulations which are the price of subsidy is part of the insidious and seductive nature of subsidies, not a cause to disregard the President's warning.

### Treated Disrespectfully

Nor are the motive forces behind the new bondage entirely benign. In part, such programs as in-kind benefits, categorical grants, and regulated subsidies derive from a decidedly illiberal view of those being aided. That is the view that having failed at self-sufficient production, the poor are not able to direct their own consumption wisely either. It is the view that the state, with the aid of professionals and social scientists who understand such things, must therefore "help" them plan their lives. It is likewise the view that those local majorities which dare to differ with the national majority on such issues as educational priorities, the balance between liberty and security, the balance between the free exercise of religion and the proscription of its establishment, or the primacy of freedom of association are not to be trusted with the customary full faith and credit. The farmers cannot farm, the traders cannot trade, and the manufacturers cannot manufacture as well as can the "experts" in and around government, proponents of this view seem to be saying.

To a greater extent, though, these programs are the natural result of a corrupted democracy, in which the liberties and properties of individuals, once believed inalienable, are regularly put to the trial of a majority vote. The election of representatives by district rather than at large localizes their political base. Thus, social, economic, ethnic, religious, occupational, or interest groups, which in a larger area would form insignificant minority factions, are able, separately or in coalition, to gain political control over the district. ("By a faction," wrote Madison in the tenth *Federalist* paper, "I understand a number of citizens, whether amounting to a majority or

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a minority of the whole, who are united and actuated by some common impulse of passion, or of interest, adverse to the rights of other citizens, or to the permanent and aggregate interests of the community.") The factious spirit, further promoted by the hypostatization of groups so common in the political discourse of the day, is then reflected in the likes of quotas, entitlements, and class action suits.

## Serving Special Interests

The turmoil of factions, which are today known as special interest groups, is also largely responsible for the new bondage. In-kind programs and categorical grants permit the easy identification, coagulation, and milking of these interest groups by politicians. Politicians, in turn, are easily swayed to commit ever-greater depredations on the public treasury by factions which form a substantial part of their support. Further, in-kind programs, categorical grants, and regulated subsidies are particularly amenable to the bureaucratic empire building against which Jefferson and Tocqueville warned. If a man would have power over the activities of society, he would search no farther than these baited hooks.

In contrast, only the poor would benefit from a single cash grant program, not the bureaucrats whose fiefdoms would be swept away, not the milk producers or construction workers assured a market without the fullness of competition, not the educators paid wages exactable from government only. Only the localities would benefit from block grants, not the supervising Federal agents, not the intermediating state agents, not the implementing local agents, nor again the natural constituencies of the many categories that the Congress has so painstakingly isolated over the years.

This should come as no surprise, for the system of unlimited democracy in the name of charity is in reality a system whereby some benefit from the failures, misfortunes, and dependency of others. When subsidies are granted without specification or regulation, only those subsidized benefit. That is why such subsidies so rarely emerge from the political process.

**Frederic Bastiat**

IDEAS ON LIBERTY

OUR DEMANDS, therefore, place The State in an obvious dilemma! If it refuses to grant the requested benefit, it is accused of weakness, ill-will, and incapacity. If it tries to grant their requests, it is obliged to load the people with increased taxes—to do more harm than good—and to bring upon itself general displeasure from another quarter.

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# *World Citizen*

THE WORLD CITIZEN was an eighteenth-century phenomenon. A child of the French Enlightenment, the World Citizen tended to put liberty ahead of country. Sometimes the World Citizen was bemused by those who rated equality ahead of liberty. This led many into Jacobin snares, with the guillotine as their reward if they strayed from the gospel proclaimed by Robespierre or some other tyrant of the moment. But the more canny among the World Citizens came to see with Edmund Burke that liberty, in the abstract, could be a delusion. Burke, an anti-ideologue, was satisfied with English liberties in the plural, as defined by the tradition going back to Magna Carta.

Philip Mazzei, an Italian from Tuscany, was a Burkean, even though Burke gets only a bare footnote mention in Mazzei's autobiography, *My Life and Wanderings*, which is now published for the first time in its entirety. The feisty Mazzei, who was cheated out of part of his patrimony by a rascally brother, became a wanderer early in life. He was inevitably attracted to London by the fact that, in England, "the only absolute power the government may exercise is to expel in time of war a foreigner that is suspected of being a spy." "Personal freedom," Mazzei reflected, "is more important for an individual than public freedom." The year in which he chose to settle in London was 1756, and the Glorious Revolution sponsored by John Locke had not yet surrendered to the "George be King" attitude of Hanoverians who held to the continental theory of Divine Right.

In addition to being a World Citizen, Mazzei was a born trader whose urge to truck and barter would have entirely satisfied his great contemporary Adam Smith. As a boy in Tuscany Mazzei had studied to be a surgeon. He took his profession with him to Smyrna in Asia Minor by way of Constantinople. But setting broken bones bored him. Sailing to London with an intrepid Captain Wilson, who kept a wary eye out for

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possible French interference, Mazzei set himself up as a teacher of Italian even though he himself had yet to learn English. His pure Tuscan pronunciation stood him in good stead as a teacher for an interim period, but he soon discovered better ways of making money. He became an importer of oils and wines, making trips back home to Italy to arrange for a supply of Florentine wines that Englishmen might prefer to port and madeira for the summer. Eventually he opened a London shop, but he put it under the name of Martini and Company in order to keep from being known to the Florentine aristocracy as "Philip the shopkeeper."

Mazzei was a happy Londoner for some fifteen years. His first disillusionment with English liberties came when John Wilkes' election to parliament was declared invalid. This seemed to Mazzei to constitute "a death blow to the solid and sacrosanct fundamental law of a free country, which is perfect freedom in the election of the representatives of the people."

### Mazzei Meets Franklin

Mazzei's growing doubts about English liberties coincided with a first meeting with Benjamin Franklin, the London agent of the Pennsylvania colony. The Grand Duke Leopold back in Tuscany had asked for two Franklin stoves. Franklin didn't like the alterations that English craftsmen had made on his stove. After some argument, Mazzei prevailed on a British stoveman to go back to Franklin's own design. The Grand Duke Leopold got his stoves, and the improvements that went with the true Franklin model created a thriving new business in "many parts of the Kingdom."

**Philip Mazzei: My Life and Wanderings.** Translated by S. Eugene Scalia, edited by Margherita Marchione. (American Institute of Italian Studies, 455 Western Avenue, Morristown, N.J. 07960), 472 pages, $14.95 cloth; $9.95 paperback.

Franklin led Mazzei to Thomas Adams, a Virginian who was a great friend of Thomas Jefferson. Sympathizing with the transatlantic colonists who were insisting on their rights as Englishmen in refusing to honor the Stamp Act or to pay a mild tax on tea, Mazzei decided to go to Virginia. His plan was to take ten Tuscan peasants with him. Once settled in Virginia, he hoped to domesticate Mediterranean crops in a New World setting. He bought a farm adjacent to Thomas Jefferson's own holdings at Monticello, and soon was raising wheat and Indian corn for shipment to Leghorn in Italy.

Jefferson, who had learned Italian

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for himself before he had ever heard a word of Italian spoken, became a great partisan of Mazzei, deeming him "of solid worth, honest, able, zealous in sound principles, moral and political, constant in friendship and punctual in all his undertakings." When war came to the colonies, Mazzei could not remain a simple farmer and exporter. He became a soldier, and it wasn't long before he had agreed to become Virginia's agent in Paris, where he joined Ben Franklin as an eloquent pleader of the colonists' cause at the French court.

After the war Mazzei lingered on in Paris, writing a four-volume work on the colonies. He had something to do with promoting Jefferson's *Notes on Virginia,* which was written to answer questions proposed by Mazzei's friends, the Duke de La Rochefoucauld and the Marquis de Condorcet.

The French Revolution's course, so different from that of the American Revolution, had Mazzei worried the moment the Jacobin Club presumed to dictate policies for the Third Estate. When the French began to issue paper assignats for money, Mazzei wrote a warning pamphlet to explain the workings of Gresham's Law. His general preoccupation with the specifics involved in maintaining individual freedom recommended him to Stanislaus Augustus II, the elected king of the aristocratic republic of Poland. Jefferson approved of Stanislaus, so Mazzei took on the added job of becoming Poland's agent in revolutionary Paris.

### The Partitioning of Poland

The chapters devoted to the story of Mazzei's service to Poland have a tremendous interest for the modern reader. As an agent Mazzei picked up some warning indications that the King of Prussia was about to connive with Russia and Austria in the final partitioning of a most unhappy Polish buffer state. Journeying to Warsaw, Mazzei tried to convey the urgency of the situation. But King Stanislaus's military advisers could not believe in the King of Prussia's intended duplicity. When they were finally convinced that Poland was about to be erased from the map of Europe as an independent nation, it was too late. There was nothing to do for Stanislaus but to resign.

Indecent as the partitioning of Poland was, there were still some courtesies connected with it. The Czar of Russia eventually assumed a part of the deposed King Stanislaus's debts. Mazzei, in a terrifying posting trip to St. Petersburg undertaken in his seventy-third year, retrieved some of the money he had loaned to King Stanislaus.

This makes a grand finale to a story that is full of meaning for any student of freedom.

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**THE WAYWARD WELFARE STATE**
by Roger A. Freeman
(Hoover Institution on War, Revolution and Peace, Stanford, CA 94305)
511 + xvii pages ■ $35.00 cloth
*The book's principal findings and conclusions are also available in a paperback volume, A Preview and Summary of "The Wayward Welfare State"*
112 + xii pages ■ $8.95

*Reviewed by William H. Peterson*

Dr. Freeman ponders the prospect of Western Civilization as he examines the enormous human and material resources that the American people over the past quarter-century have invested in hundreds of governmental programs, some of which originated in the New Deal but most during the New Frontier and Great Society eras. This book attempts to evaluate the cost of these programs as well as their returns, positive or negative. It is a masterful study by a man who has been an economist with Stanford's Hoover Institution since 1962, and is now Senior Fellow Emeritus.

Today the nation is faced with crucial decisions over the division of resources between the requirements of national defense and demands for domestic services. Aggravating the issue is the accompanying struggle for more or less redistribution of income from the more productive to the less productive segments of society. These entitlement or transfer programs, including Social Security, grants-in-aid to state and local governments, and subsidies to farmers and others, now cost Uncle Sam in excess of $400 billion a year, or 56% of total federal spending, compared with only 35% in 1960 and 27% in 1955.

This escalation in transfer payments can only undermine the drive to improve productivity, augment capital formation and restore prosperity. Total transfers are now far larger than total federal procurement, defense and nondefense, and total federal payroll, civilian and military. Indeed, they are greater than the 1981 defense budget and the 1981 total estimated expenditures for new plant and equipment in the U.S. combined. Hence Freeman's justifiable assertion that our welfare state is "wayward," i.e., out of control. Similar lack of control is evident throughout the West—in Canada, for instance, Scandinavia, Britain, France, Italy, the Netherlands, and West Germany—apart from, of course, Eastern Europe.

Witness the failure of social programs in health, education, housing, crime prevention and aid to families with dependent children. Welfarism has contributed to rising illiteracy, sagging productivity, more broken homes, more absent fathers, more unwed mothers, greater crime in all dimensions, and of course

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surging inflation and an increasingly sputter-and-spurt economy. Rightfully, Freeman thus poses the question: "Can Western Civilization survive?"

The problem President Reagan faces in trying to rein this wayward welfare state is an old one. President Roosevelt warned in his 1935 State of the Union message that "continued dependence on relief induces a spiritual and moral disintegration fundamentally destructive to the national fibre," and declared: "The federal government must and shall quit this business of relief." On signing the 1935 Social Security Act he said: "I can see the end of public assistance in America."

President Kennedy likewise urged Congress and the nation to reverse the trend of welfarism. He signed a bill on July 26, 1962, "shifting the emphasis of the nation's welfare program for the needy from the dole to rehabilitation," saying that it "makes possible the most far-reaching revision of the public welfare program since it was enacted in 1935. This measure embodies a new approach—stressing services in addition to support, rehabilitation instead of relief, and training for useful work instead of prolonged dependency."

Again, President Johnson, on signing the Economic Opportunity Act of 1964, said: "We are not content to accept the endless growth of relief or welfare rolls. We want to offer the forgotten fifth of our people opportunity and not doles."

President Carter prepared a similar plan and stated in his accompanying message of August 6, 1977: "As I pledged during my campaign for the presidency, I am asking the Congress to abolish our existing welfare system, and replace it with a job-oriented program for those able to work and a simplified, uniform, equitable cash assistance program for those in need who are unable to work . . . combine effective work requirements and strong work incentives."

The most impressive failure is Social Security, whose trust fund is fast approaching zero. Freeman argues that Social Security is increasingly insecure. He notes that it has a deliberately built-in antiwork bias, with its limits on wage and salary income that can be earned by beneficiaries from ages 65 to 72. What is equally significant: more than half of the workers no longer wait until age 65 to collect retirement benefits: half the men and nearly two-thirds of the women who demanded and were awarded Social Security in 1976 were 62 to 64 years old.

The question whether America and Western Civilization can survive is indeed relevant. Welfarism has become a state of mind; Washington has become a public trough. Government, the problem, is still looked upon as a solution. Can a people who

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voted themselves into this mess vote themselves out of it? New York economist A. Gary Shilling noted that most Americans are now dependent on government pay, government pensions, welfare aid, subsidies, bail-outs or other forms of income derived from the public treasury. Such dependency increased from 36.7% in 1960 to 50.2% in 1979.

Roger A. Freeman has performed a public service with this monumental work, which amply documents the foresight of Mr. Justice Brandeis who warned us a half century ago that: "Experience should teach us to be most on our guard to protect liberty when the government's purposes are beneficent . . . The greatest dangers to liberty lurk in insidious encroachment by men of zeal, well-meaning but without understanding."

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**THE REGULATION OF MEDICAL CARE: IS THE PRICE TOO HIGH?**
by John C. Goodman
(CATO Institute, 224 2nd Street, S.E., Washington, D.C., 20003), 1980
135 pages ■ $5.00 paperback

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*Reviewed by Tommy W. Rogers*

Dr. Goodman, assistant professor of economics and Director of the Center for Health Policy Research at the University of Dallas, contends that most of the failures we encounter in the delivery of health care are not due to failure of the free market but are, to the contrary, the result of governmental interventions, requirements, prohibitions, and regulations with respect to medical practice.

Dr. Goodman, in point blank fashion, accompanied by persuasive documentation, places much of the blame for this state of affairs on organized medicine which, according to him, has "for over 100 years, sought and obtained special privileges from government." Dr. Goodman's book is not an indictment of the medical vocation itself, but is a stinging indictment of what he sees as medicine's long and extensive involvement with government to restrict free competition in the market place in the interest of medical care provisioners.

Goodman traces the history of the American Medical Association from its initiation in 1847 as a scarcely veiled cartel through the 1910 Flexner Report which was widely utilized by state legislatures as a rationale for drastically limiting the supply of physicians.

Goodman follows with a discussion of the purpose of licensing, restrictions on advertising, and restrictions on price competition. He questions the efficacy of the licensure mechanism to promote medical care quality, challenges the breadth of medical school education (such as the limited knowledge of non-natu-

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ropathic physicians as to the healing power of nutrition) and indicates that the free market has a more equitable answer as to the providing of health care than is to be obtained by the decisions of groups and committees whose underlying objective is served by restrictive licensing.

Government, instead of using its leverage to remove the many legal obstacles which have kept a genuine free market from working in the medical care arena, acted during the Nixon administration to impose additional exemptions, privileges, and subsidies in the form of "health maintenance organizations." HMOs, Goodman feels, represent triumphs of "managerial, legal, political, financial, marketing and negotiating skill" which may well be laying the groundwork for a federally regulated health care marketplace.

Although organized medicine and its allies have resisted the more extreme proposals for comprehensive national health insurance, there is no assurance they will continue to do so. Goodman detects a disturbing recent trend among providers of health care services, the recognition that socialized medicine under their control and on their behalf will give them unlimited access to utilize a controlled system in their interest. "Many within the health care industry want to shape and mold national health insurance proposals to fit their own economic interests rather than oppose them outright," the author states. He adds that "As they have in so many other countries, the producers of health care may soon become the architects of national health insurance in the United States."

Goodman's opinion is that the burden of protecting our health care nonsystem from further governmental intrusions will probably fall squarely on the shoulders of the general public and that if socialized medicine is ultimately turned back it will be patients, not practitioners, who will be primarily responsible.

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**DEMOCRACY AND LIBERTY**
by William E. H. Lecky
Introduction by William Murchison
(Liberty*Classics*, 7440 North Shadeland, Indianapolis, Indiana 46250), 1981
Vol. 1, 479 pages; Vol. II, 501 pages
$18.00/set, cloth; $6.00/set, paperback

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*Reviewed by Tommy W. Rogers*

William Edward Hartpole Lecky (1838–1903), Irish historian, essayist, and member of Parliament, issued *Democracy and Liberty* in 1896. Lecky was convinced that the statist radicalism which asserted that only the majesty of the collective state could ensure well-being against the vagaries of the capitalist structure would eventually result in an enforced servitude of the citizenry.

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*Democracy and Liberty* is an eclectic history which deals with the tendencies of the political world in many different countries. English representative government, French democracy, American democracy, the functions of legislative bodies, labor questions, woman questions, the growth of socialism, are among the topics which Lecky discusses with a depth of knowledge and methods of reasoning which are helpful in evaluating contemporary issues.

Lecky was particularly concerned with the effect of universal suffrage bestowed on the basis of posited abstract "rights" rather than on characteristics which defined the solid, trustworthy, educated, working citizenry. A tenet of the older liberalism which asserted the rights of the individual against the state was that primary political powers should be with the owners of realty. The doctrine that men to whom the land belonged, at least in minute or yeoman amounts, were the men who ought to govern was held by Dr. Franklin and by a large segment of the American colonists. Lecky felt a major danger of representative government was its potential degeneration into a system of veiled confiscation of one class voting the taxes which another class would be compelled to pay.

Lecky felt that the privilege of suffrage rightly varied according to the special characteristics and circumstances of nations. That there is no certain and specific "natural right" of suffrage was said to be illustrated in the American experience. There were no uniform rules of suffrage in the colonies. Even subsequent to the adoption of the Constitution, the various States differed considerably in their qualifications for voting, although property qualifications prevailed in most states.

Lecky felt that the organic emergence of the right of suffrage in Western Civilization was aptly set forth by Chief Justice Story. In his *Commentaries on the Constitution,* which Lecky felt was one of the most valuable works ever penned on the science of politics, Story said that voting, irrespective of whatever foundation it may have in natural law, had always been treated as a civil right in the practice of nations, regulated by each society according to its own circumstances and interests.

Lecky endeavored to follow the tendencies that were altering the contours of the political world right up to the publication of his *Democracy and Liberty.* All the eloquence and learning that Lecky mustered, Murchison writes in the introduction, was shouted into the teeth of the gale. Nevertheless, Lecky was a man worth listening to in 1896. And, his conversation, rooted in tradition and experience rather than frenzies of the moment, is still valuable.

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